

F. A. Hayek

NEW STUDIES

*in Philosophy, Politics,
Economics and the
History of Ideas*



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Preface

This long-contemplated further volume of *Studies* has been delayed mainly by uncertainty about whether I ought to include the various essays preparatory to my inquiry on *Law, Legislation and Liberty* which for years I doubted my ability to complete. Much the greater part of what I published during the last 10 years were preliminary studies for that work which had little importance once the chief conclusions had found their final form in that systematic exposition. With two volumes published and the third near completion I feel now sufficiently confident to leave most of those earlier attempts dispersed as they are and have only included in this volume two or three of them which seem to me still to provide additional material.

On the whole the present volume thus deals again equally with problems of philosophy, politics and economics, though it proved to be a little more difficult to decide to which category some of the essays belonged. Some readers may feel that some of the essays in the part on philosophy deal more with psychological than with strictly philosophical problems and that the part on economics now deals chiefly with what as an academic subject used to be called 'money and banking'. The only difference in formal arrangement from the first volume is that I have thought it appropriate to give the kind of articles which in the earlier volume I had placed in an appendix the status of a fourth part under the heading 'History of Ideas' and to amend the title of the volume accordingly.

Of the articles contained in this volume the lectures on 'The Errors of Constructivism' (chapter 1) and 'Competition as a Discovery Procedure' (chapter 12) have been published before only in German, while the article on 'Liberalism' (chapter 9) was written in English to be published in an Italian translation in the *Enciclopedia del Novicento* by the Istituto della Enciclopedia Italiana at Rome. To them as well as to all the other publishers of the original versions named in the footnotes at the beginning of each chapter I am greatly indebted for permission to reprint.

Freiburg i.B.
April 1977

F. A. HAYEK

CHAPTER ONE

*The Errors of Constructivism**

I

It seemed to me necessary to introduce the term 'constructivism'¹ as a specific name for a manner of thinking that in the past has often, but misleadingly, been described as 'rationalism'.² The basic conception of this constructivism can perhaps be expressed in the simplest manner by the innocent sounding formula that, since man has himself created the institutions of society and civilisation, he must also be able to alter them at will so as to satisfy his desires or wishes. It is almost 50 years since I first heard and was greatly impressed by this formula.³

At first the current phrase that man 'created' his civilisation and its institutions may appear rather harmless and commonplace. But as soon as it is extended, as is frequently done, to mean that man was able to do this because he was endowed with reason, the implications become questionable. Man did not possess reason before civilisation.

* An inaugural lecture delivered on 27 January 1970 on the assumption of a visiting professorship at the Paris-Lodron University of Salzburg and originally published as *Die Irrtümer des Konstruktivismus und die Grundlagen legitimer Kritik gesellschaftlicher Gebilde*, Munich, 1970, reprinted Tübingen, 1975. The first two paragraphs referring solely to local circumstances have been omitted from this translation.

1 See my Tokyo lecture of 1964 on 'Kinds of rationalism' in *Studies in Philosophy, Politics and Economics*, London and Chicago, 1967.

2 I have come across occasional references to the fact that the adjective 'constructivist' was a favourite term of W. E. Gladstone, but I have not succeeded in finding it in his published works. More recently it has also been used to describe a movement in art where its meaning is not unrelated to the concept here discussed. See Stephen Bann, *The Tradition of Constructivism*, London, 1974. Perhaps, to show that we use the term in a critical sense, 'constructivistic' is better than 'constructivist'.

3 In a lecture by W. C. Mitchell at Columbia University in New York during the year 1923. If I had even then some reservations about this statement it was mainly due to the discussion of the effects of 'non-reflected action' in Carl Menger, *Untersuchungen über die Methoden der Socialwissenschaften und der politischen Ökonomie insbesondere*, Leipzig, 1883.

The two evolved together. We need merely to consider language, which today nobody still believes to have been 'invented' by a rational being, in order to see that reason and civilisation develop in constant mutual interaction. But what we now no longer question with regard to language (though even that is comparatively recent) is by no means generally accepted with regard to morals, law, the skills of handicrafts, or social institutions. We are still too easily led to assume that these phenomena, which are clearly the results of human action, must also have been consciously designed by a human mind, in circumstances created for the purposes which they serve – that is, that they are what Max Weber called *wert-rationale* products.¹ In short, we are misled into thinking that morals, law, skills and social institutions can only be justified in so far as they correspond to some preconceived design.

It is significant that this is a mistake we usually commit only with regard to the phenomena of our own civilisation. If the ethnologist or social anthropologist attempts to understand other cultures, he has no doubt that their members frequently have no idea as to the reason for observing particular rules, or what depends on it. Yet most modern social theorists are rarely willing to admit that the same thing applies also to our own civilisation. We too frequently do not know what benefits we derive from the usages of our society; and such social theorists regard this merely as a regrettable deficiency which ought to be removed as soon as possible.

2

In a short lecture it is not possible to trace the history of the discussion of these problems to which I have given some attention in recent years.² I will merely mention that they were already familiar to the ancient Greeks. The very dichotomy between 'natural' and 'artificial' formations which the ancient Greeks introduced has dominated the discussion for 2,000 years. Unfortunately, the Greeks' distinction between natural and artificial has become the greatest obstacle to further advance; because, interpreted as an exclusive alternative,

¹ See Max Weber, *Wirtschaft und Gesellschaft*, Tübingen, 1921, chapter 1, paragraph 2, where we get little help, however, since the 'values' to which the discussion refers are soon in effect reduced to consciously pursued particular aims.

² See particularly my essays on 'The results of human action but not of human design' and 'The legal philosophy of David Hume' in *Studies on Philosophy, Politics and Economics*, and my lecture on 'Dr Bernard Mandeville', published in this book, p. 249.

this distinction is not only ambiguous but definitely false. As was at last clearly seen by the Scottish social philosophers of the eighteenth century (but the late Schoolmen had already partly seen it), a large part of social formations, although the result of human action, is not of human design. The consequence of this is that such formations, according to the interpretation of the traditional terms, could be described either as 'natural', or as 'artificial'.

The beginning of a true appreciation of these circumstances in the sixteenth century was extinguished, however, in the seventeenth century by the rise of a powerful new philosophy – the rationalism of René Descartes and his followers, from whom all modern forms of constructivism derive. From Descartes it was taken over by that unreasonable 'Age of Reason', which was entirely dominated by the Cartesian spirit. Voltaire, the greatest representative of the so-called 'Age of Reason', expressed the Cartesian spirit in his famous statement: 'if you want good laws, burn those you have and make yourselves new ones'.⁶ Against this, the great critic of rationalism, David Hume, could only slowly elaborate the foundations of a true theory of the growth of social formations, which was further developed by his fellow Scotsmen, Adam Smith and Adam Ferguson, into a theory of phenomena that are 'the result of human action but not of human design'.

Descartes had taught that we should only believe what we can prove. Applied to the field of morals and values generally, his doctrine meant that we should only accept as binding what we could recognise as a rational design for a recognisable purpose. I will leave undecided how far he himself evaded difficulties by representing the unfathomable will of God as the creator of all purposive phenomena.⁷ For his successors it certainly became a human will, which they regarded as the source of all social formations whose intention must provide the justification. Society appeared to them as a deliberate

6 Voltaire, *Dictionnaire philosophique*, s.v. 'Loi', reprinted in *Œuvres philosophiques de Voltaire*, ed. Hachette, Paris, n.d., XVIII, p. 432.

7 Descartes was somewhat reticent about his views on political and moral problems and only rarely explicitly stated the consequence of his philosophical principles for these questions. But compare the famous passage at the beginning of the second part of *Discours de la méthode* where he writes: 'je crois que, si Sparte a été autrefois très florissante, ce n'a pas été à cause de la bonté de chacune de ses lois en particulier, vus que plusieurs étaient fort étrange et même contraire à bonnes mœurs; mais à cause que, n'ayant été inventée que par un seul, elles tendaient toutes à même fin'. The consequences of the Cartesian philosophy for morals are well shown in Alfred Espinas, *Descartes et la Morale*, Paris, 1925.

construction of men for an intended purpose – shown most clearly in the writing of Descartes' faithful pupil, J.-J. Rousseau.⁸ The belief in the unlimited power of a supreme authority as necessary, especially for a representative assembly, and therefore the belief that democracy necessarily means the unlimited power of the majority, are ominous consequences of this constructivism.

3

You will probably most clearly see what I mean by 'constructivism' if I quote a characteristic statement of a well-known Swedish sociologist, which I recently encountered in the pages of a German popular science journal. 'The most important goal that sociology has set itself', he wrote, 'is to predict the future development and to shape (*gestalten*) the future, or, if one prefers to express it in that manner, to create the future of mankind.'⁹ If a science makes such claims, this evidently implies the assertion that the whole of human civilisation, and all we have so far achieved, could only have been built as a purposive rational construction.

It must suffice for the moment to show that this constructivistic interpretation of social formations is by no means merely harmless philosophical speculation, but an assertion of fact from which conclusions are derived concerning both the explanation of social processes and the opportunities for political action. The factually erroneous assertion, from which the constructivists derive such far-reaching consequences and demands, appears to me to be that the complex order of our modern society is exclusively due to the circumstance that men have been guided in their actions by foresight – an insight into the connections between cause and effect – or at least that it could have arisen through design. What I want to show is that

8 Cf. R. Derathé, *Le Rationalisme de J.-J. Rousseau*, Paris, 1925.

9 Torgny T. Segerstedt, 'Wandel der Gesellschaft', *Bild der Wissenschaft*, vol. VI, no. 5, May 1969, p. 441. See also the same author's *Gesellschaftliche Herrschaft als soziologisches Konzept*, Neuwied and Berlin, 1967. Earlier examples of the constantly recurring idea of mankind or reason determining itself, particularly by L. T. Hobhouse and Karl Mannheim, I have given on an earlier occasion (*The Counter-Revolution of Science*, Chicago, 1952), but I had not expected to find the explicit assertion by a representative of this view such as the psychologist B. F. Skinner ('Freedom and the control of men', *The American Scholar*, vol. XXVI, no. 1, 1955–6, p. 49) that 'Man is able, and now as never before, to lift himself up by his own bootstraps'. The reader will find that the same idea appears also in a statement of the psychiatrist G. B. Chisholm, to be quoted later.

men are in their conduct *never* guided *exclusively* by their understanding of the causal connections between particular known means and certain desired ends, but always also by rules of conduct of which they are rarely aware, which they certainly have not consciously invented, and that to discern the function and significance of this is a difficult and only partially achieved task of scientific effort. Expressing this differently – it means that the success of rational striving (Max Weber's *zweckrationales Handeln*) is largely due to the observance of values, whose role in our society ought to be carefully distinguished from that of deliberately pursued goals.

I can only briefly mention the further fact, that success of the individual in the achievement of his immediate aims depends, not only on his conscious insight into causal connections, but also in a high degree on his ability to act according to rules, which he may be unable to express in words, but which we can only describe by formulating rules. All our skills, from the command of language to the mastery of handicrafts or games – actions which we 'know how' to perform without being able to state how we do it – are instances of this.¹⁰ I mention them here only because action according to rules – which we do not explicitly know and which have not been designed by reason, but prevail because the manner of acting of those who are successful is imitated – is perhaps easier to recognise in these instances than in the field directly relevant to my present concerns.

The rules we are discussing are those that are not so much useful to the individuals who observe them, as those that (if they are *generally* observed) make all the members of the group more effective, because they give them opportunities to act within a social *order*. These rules are also mostly not the result of a deliberate choice of means for specific purposes, but of a process of selection, in the course of which groups that achieved a more efficient order displaced (or were imitated by) others, often without knowing to what their superiority was due. This social group of rules includes the rules of law, of morals, of custom and so on – in fact, all the values which govern a society. The term 'value', which I shall for lack of a better one have to continue to use in this context, is in fact a little misleading, because we tend to interpret it as referring to particular aims of individual action, while in the fields to which I am referring

¹⁰ See my essay on 'Rules, perception and intelligibility' in *Studies in Philosophy, Politics and Economics*.

they consist mostly of rules which do not tell us positively what to do, but in most instances merely what we ought not to do.

Those taboos of society which are not founded on any rational justification have been the favourite subject of derision by the constructivists, who wish to see them banned from any rationally designed order of society. Among the taboos they have largely succeeded in destroying are respect for private property and for the keeping of private contracts, with the result that some people doubt if respect for them can ever again be restored.¹¹

For all organisms, however, it is often more important to know what they must not do, if they are to avoid danger, than to know what they must do in order to achieve particular ends. The former kind of knowledge is usually not a knowledge of the consequences which the prohibited kind of conduct would produce, but a knowledge that in certain conditions certain types of conduct are to be avoided. Our positive knowledge of cause and effect assists us only in those fields where our acquaintance with the particular circumstances is sufficient; and it is important that we do not move beyond the region where this knowledge will guide us reliably. This is achieved by rules that, without regard to the consequences in the particular instance, generally prohibit actions of a certain kind.¹²

That in this sense man is not only a purpose-seeking but also a rule-following animal has been repeatedly stressed in the recent literature.¹³ In order to understand what is meant by this, we must be quite clear about the meaning attached in this connection to the word 'rule'. This is necessary because those chiefly negative (or prohibitory) rules of conduct which make possible the formation of social order are of three different kinds, which I now spell out. These kinds of rules are: (1) rules that are merely observed in fact but have never been stated in words; if we speak of the 'sense of justice' or 'the feeling for language' we refer to such rules which we are able to apply, but do not know explicitly; (2) rules that, though they

11 Cf., for example, Gunnar Myrdal, *Beyond the Welfare State*, London, 1969, p. 17: 'The important property and contract taboos, so basic for a stable liberal society, were forcibly weakened when big alterations were allowed to occur in the real value of currencies'; and *ibid.*, p. 19: 'Social taboos can never be established by decisions founded upon reflection and discussion'.

12 I have treated these problems more extensively in my lecture on 'Rechtsordnung und Handlungsordnung' in E. Streissler (ed.), *Zur Einheit der Rechts- und Staatswissenschaften*, Karlsruhe, 1967; reprinted in my *Freiburger Studien*, Tübingen, 1969, as well as in my *Law, Legislation and Liberty*, vol. I, *Rules and Order*, London and Chicago, 1973.

13 R. S. Peters, *The Concept of Motivation*, London, 1958, p. 5.

have been stated in words, still merely express approximately what has long before been generally observed in action; and (3) rules that have been deliberately introduced and therefore necessarily exist as words set out in sentences.

Constructivists would like to reject the first and second groups of rules, and to accept as valid only the third group I have mentioned.

4

What then is the origin of those rules that most people follow but few if anyone can state in words? Long before Charles Darwin the theorists of society, and particularly those of language, had given the answer that in the process of cultural transmission, in which modes of conduct are passed on from generation to generation, a process of selection takes place, in which those modes of conduct prevail which lead to the formation of a more efficient order for the whole group, because such groups will prevail over others.¹⁴

A point needing special emphasis, because it is so frequently misunderstood, is that by no means every regularity of conduct among individuals produces an order for the whole of society. Therefore regular individual conduct does not necessarily mean order, but only certain kinds of regularity of the conduct of individuals lead to an order for the whole. The order of society is therefore a factual state of affairs which must be distinguished from the regularity of the conduct of individuals. It must be defined as a condition in which individuals are able, on the basis of their own respective peculiar knowledge, to form expectations concerning the conduct of others, which are proved correct by making possible a successful mutual adjustment of the actions of these individuals. If every person perceiving another were either to try to kill him or to run away, this would certainly also constitute a regularity of individual conduct, but not one that led to the formation of ordered groups. Quite clearly, certain combinations of such rules of individual conduct may produce a superior kind of order, which will enable some groups to expand at the expense of others.

This effect does not presuppose that the members of the group know to which rules of conduct the group owes its superiority, but

¹⁴ See on these 'Darwinians before Darwin' in the social sciences my essays 'The results of human action but not of human design' and 'The legal philosophy of David Hume' in *Studies in Philosophy, Politics and Economics*.

merely that it will accept only those individuals as members who observe the rules traditionally accepted by it. There will always be an amount of experience of individuals precipitated in such rules, which its living members do not know, but which nevertheless help them more effectively to pursue their ends.

This sort of 'knowledge of the world' that is passed on from generation to generation will thus consist in a great measure not of knowledge of cause and effect, but of rules of conduct adapted to the environment and acting like information about the environment although they do not say anything about it. Like scientific theories, they are preserved by proving themselves useful, but, in contrast to scientific theories, by a proof which no one needs to know, because the proof manifests itself in the resilience and progressive expansion of the order of society which it makes possible. This is the true content of the much derided idea of the 'wisdom of our ancestors' embodied in inherited institutions, which plays such an important role in conservative thought, but appears to the constructivist to be an empty phrase signifying nothing.

5

Time allows me to consider further only one of the many interesting interrelations of this kind, which at the same time also explains why an economist is particularly inclined to concern himself with these problems: the connection between rules of law and the spontaneously formed order of the market.¹⁵ This order is, of course, not the result of a miracle or some natural harmony of interests. It forms itself, because in the course of millennia men develop rules of conduct which lead to the formation of such an order out of the separate spontaneous activities of individuals. The interesting point about this is that men developed these rules without really understanding their functions. Philosophers of law have in general even ceased to ask what is the 'purpose' of law, thinking the question is unanswerable because they interpret 'purpose' to mean particular foreseeable results, to achieve which the rules were designed. In fact, this 'purpose' is to bring about an abstract order – a system of abstract relations – concrete manifestations of which will depend on a great variety of particular circumstances which no one can know in their entirety. Those rules of just conduct have therefore a 'meaning' or

¹⁵ Cf. my lecture 'Rechtsordnung und Handelnsordnung', cited above in note 12.

'function' which no one has given them, and which social theory must try to discover.

It was the great achievement of economic theory that, 200 years before cybernetics, it recognised the nature of such self-regulating systems in which certain regularities (or, perhaps better, 'restraints') of conduct of the elements led to constant adaptation of the comprehensive order to particular facts, affecting in the first instance only the separate elements. Such an order, leading to the utilisation of much more information than anyone possesses, could not have been 'invented'. This follows from the fact that the result could not have been foreseen. None of our ancestors could have known that the protection of property and contracts would lead to an extensive division of labour, specialisation and the establishment of markets, or that the extension to outsiders of rules initially applicable only to members of the same tribe would tend towards the formation of a world economy.

All that man could do was to try to improve bit by bit on a process of mutually adjusting individual activities, by reducing conflicts through modifications to some of the inherited rules. All that he could deliberately design, he could and did create only within a system of rules, which he had not invented, and with the aim of improving an existing order.¹⁶ Always merely adjusting the rules, he tried to improve the combined effect of all other rules accepted in his community. In his efforts to improve the existing order, he was therefore never free arbitrarily to lay down any new rule he liked, but had always a definite problem to solve, raised by an imperfection of the existing order, but of an order he would have been quite incapable of constructing as a whole. What man found were conflicts between accepted values, the significance of which he only partly understood, but on the character of which the results of many of his efforts depended, and which he could only strive better to adapt to each other, but which he could never create anew.

¹⁶ Cf. in this connection K. R. Popper, *The Open Society and Its Enemies*, Princeton, N.J., 1963, vol. I, p. 64: 'Nearly all misunderstandings [of the statement that norms are man-made] can be traced back to one fundamental misconception, namely to the belief that "convention" implied arbitrariness'; also David Hume, *A Treatise on Human Nature*, in *Works*, ed. T. H. Green and T. H. Grose, London, 1890, vol. II, p. 258: 'Though the rules of justice be *artificial*, they are not *arbitrary*. Nor is the expression improper to call them *Laws of Nature*; if by natural we understand what is common to any species, or even if we confine it to mean what is inseparable from the species.'

The most surprising aspect of recent developments is that our undeniably increased understanding of these circumstances has led to new errors. We believe, I think rightly, that we have learnt to understand the general principles which govern the formation of such complex orders as those of organisms, human society, or perhaps even the human mind. Experience in those fields in which modern science has achieved its greatest triumphs leads us to expect that such insights will rapidly also give us mastery over the phenomena, and enable us deliberately to determine the results. But in the sphere of the complex phenomena of life, of the mind, and of the society, we encounter a new difficulty.¹⁷ However greatly our theories and techniques of investigation assist us to interpret the observed facts, they give little help in ascertaining all those particulars which enter into the determination of the complex patterns, and which we would have to know to achieve complete explanations, or precise predictions.

If we knew all the particular circumstances which prevailed in the course of the history of the earth (and if it were not for the phenomenon of genetic drift) we should be able with the help of modern genetics to explain why different species of organisms have assumed the specific structures which they possess. But it would be absurd to assume that we could ever ascertain all these particular facts. It may even be true that if at a given moment someone could know the sum total of all the particular facts which are dispersed among the millions or billions of people living at the time, he ought to be in a position to bring about a more efficient order of human productive efforts than that achieved by the market. Science can help us to a better theoretical understanding of the interconnections. But science cannot significantly help us to ascertain all the widely dispersed and rapidly fluctuating particular circumstances of time and place which determine the order of a great complex society.

The delusion that advancing theoretical knowledge places us everywhere increasingly in a position to reduce complex interconnections to ascertainable particular facts often leads to new scientific errors. Especially it leads to those errors of science which we must now consider, because they lead to the destruction of irreplace-

¹⁷ Cf. my essay on 'The theory of complex phenomena' in *Studies in Philosophy, Politics and Economics*.

able values, to which we owe our social order and our civilisation. Such errors are largely due to an arrogation of pretended knowledge, which in fact no one possesses and which even the advance of science is not likely to give us.

Concerning our modern economic system, understanding of the principles by which its order forms itself shows us that it rests on the use of knowledge (and of skills in obtaining relevant information) which no one possesses in its entirety, and that it is brought about because individuals are in their actions guided by certain general rules. Certainly, we ought not to succumb to the false belief, or delusion, that we can replace it with a different kind of order, which presupposes that all this knowledge can be concentrated in a central brain, or group of brains of any practicable size.

The fact, however, that in spite of all the advance of our knowledge, the results of our endeavours remain dependent on circumstances about which we know little or nothing, and on ordering forces we cannot control, is precisely what so many people regard as intolerable. Constructivists ascribe this interdependence to still allowing ourselves to be guided by values which are not rationally demonstrated or given positive proof as justification for them. They assert that we no longer need to entrust our fate to a system, the results of which we do not determine beforehand, although it opens up vast new opportunities for the efforts of individuals, but at the same time resembles a game of chance in some respects, since no single person bears responsibility for the ultimate outcome. The anthropomorphic hypostasation of a personified mankind, who pursue aims they have consciously chosen, thus leads to the demand that all those grown values not visibly serving approved ends, but which are conditions for the formation of an abstract order, should be discarded to offer individuals improved prospects of achieving their different and often conflicting goals. Scientific error of this kind tends to discredit values, on the observance of which the survival of our civilisation may depend.

7

This process of scientific error destroying indispensable values commenced to play an important role during the last century. It is specially associated with various philosophical views, which their authors like to describe as 'positivist', because they wish to recognise

as useful knowledge only insights into the connection between cause and effect. The very name – *positus* meaning ‘set down’ – expresses the preference for the deliberately created over all that has not been rationally designed. The founder of the positivist movement, Auguste Comte, clearly expressed this basic idea when he asserted the unquestionable superiority of demonstrated over revealed morals.¹⁸ The phrase shows that the only choice he recognised was that between deliberate creation by a human mind and creation by a superhuman intelligence, and that he did not even consider the possibility of any origins from a process of selective evolution. The most important later manifestation of this constructivism in the course of the nineteenth century was utilitarianism, the treatment of all norms in epistemological positivism in general, and legal positivism in particular; and finally, I believe, the whole of socialism.

In the case of utilitarianism, this character is clearly shown in its original, particularistic form, now generally distinguished as ‘act utilitarianism’ from ‘rule utilitarianism’. This alone is faithful to the original idea that every single decision must be based on the perceived social utility of its particular effects; while a generic or rule utilitarianism, as has often been shown, cannot be consistently carried through.¹⁹ Side by side with these attempts at constructivistic explanation we find in philosophical positivism, however, also a tendency to dispose of all values as things which do not refer to facts (and, therefore, are ‘metaphysical’) or a tendency to treat them as pure matters of emotion and therefore rationally not justifiable, or meaningless. The most naïve version of this is probably the ‘emotivism’ that has been popular in the course of the last 30 years. The expounders of ‘emotivism’²⁰ believed that, with the statement that moral or immoral, or just and unjust, action evokes certain moral feelings, they had explained something – as if the question, why a certain group of actions causes one kind of emotion, and another group of actions another kind of emotion, did not raise an important problem of the significance this has for the ordering of life in society.

18 Auguste Comte, *Système de la politique positive*, Paris, 1854, vol. I, p. 356: ‘La supériorité de la moral démontrée sur la moral révélée!’

19 Concerning the results of the more recent discussion of utilitarianism see David Lyons, *Forms and Limits of Utilitarianism*, Oxford, 1965; D. H. Hodgson, *Consequences of Utilitarianism*, Oxford, 1967; and the convenient collection of essays in M. D. Bayles (ed.), *Contemporary Utilitarianism*, New York, 1968.

20 See the writings of Rudolf Carnap, and particularly A. J. Ayer, *Language, Truth and Logic*, London, 1936.

The constructivist approach is most clearly to be seen in the original form of legal positivism, as expounded by Thomas Hobbes and John Austin, to whom every rule of law must be derivable from a conscious act of legislation. This, as every historian of law knows, is factually false. But even in its most modern form, which I will briefly consider later, this false assumption is avoided only by limiting the conscious act of creating law to the conferring of validity on rules, about the origin of the content of which it has nothing to say. This turns the whole theory into an uninteresting tautology, which tells us nothing about how the rules can be found which the judicial authorities must apply.

The roots of socialism in constructivistic thought are obvious not only in its original form – in which it intended through socialisation of the means of production, distribution and exchange to make possible a planned economy to replace the spontaneous order of the market by an organisation directed to particular ends.²¹ But the modern form of socialism that tries to use the market in the service of what is called ‘social justice’, and for this purpose wants to guide the action of men, not by rules of just conduct for the individual, but by the recognised importance of results brought about by the decisions of authority, is no less based upon it.

8

In our century constructivism has in particular exercised great influence on ethical views through its effects on psychiatry and psychology. Within the time at my disposal I can give only two of many examples of that destruction of values by scientific error, which is at work in these fields. With regard to the first example, which I

21 The recognition of the defects of these plans is now generally and justly ascribed to the great discussion which was started in the 1920s by the writings of Ludwig von Mises. But we should not overlook how many of the important points had been clearly seen earlier by some economists. As one forgotten instance a statement by Erwin Nasse in an article ‘Über die Verhütung der Produktionskrisen durch staatliche Fürsorge’, *Jahrbuch für Gesetzgebung etc.*, N.S., 1879, p. 164, may be quoted: ‘Eine planmässige Leitung der Produktion *ohne* Freiheit der Bedarfs- und Berufswahl würde nicht geradezu undenkbar, aber mit einer Zerstörung alles dessen, was das Leben lebenswert macht, verbunden sein. Eine planmässige Leitung der gesamten wirtschaftlichen Tätigkeit *mit* Freiheit der Bedarfs- und Berufswahl zu vereinigen ist ein Problem, das nur mit der Quadratur des Kreises verglichen werden kann. Denn, so wie man jedem gestattet, die Richtung und Art seiner wirtschaftlichen Tätigkeit und Konsumtion frei zu bestimmen, verliert man die Leitung der Gesamtwirtschaft aus der Hand.’

take from a psychiatrist, I must first say a few words about the author I shall quote, lest it be suspected that in order to exaggerate I have chosen some unrepresentative figure. The international reputation of the Canadian scientist, the late Brock Chisholm, is illustrated by the fact that he had been entrusted with building up the World Health Organisation, acted for five years as its first Secretary-General and was finally elected President of the World Federation of Mental Health.

Just before Brock Chisholm embarked on this international career he wrote:²²

The re-interpretation and eventual eradication of the concept of right and wrong which has been the basis of child training, the substitution of intelligent and rational thinking for faith in the certainties of the old people, these are the belated objectives of practically all effective psychotherapy. . . . The suggestion that we should stop teaching children moralities and right and wrong and instead protect their original intellectual integrity has of course to be met by an outcry of heretic or iconoclast, such as was raised against Galileo for finding another planet,

²² George Brock Chisholm, 'The re-establishment of peacetime society', The William Alanson White Memorial Lectures, 2nd series, *Psychiatry*, vol. IX, no. 3, February 1946 (with a laudatory introduction by Abe Fortas), pp. 9-11. Cf. also two books by Chisholm, *Prescription for Survival*, New York, 1957, and *Can People Learn to Learn?*, New York, 1958, as well as his essay 'The issues concerning man's biological future' in *The Great Issues of Conscience in Modern Medicine*, Hanover, N.H., 1960, where he argues (p. 61): 'We haven't even got a government department that I know of that is set up to concern itself with the "survival of the human race". And if there is any question about which we have no government department, it obviously is not very important.'

It would be possible to quote here any number of similar utterances of the last 150 years. The Russian revolutionary Alexander Herzen was able to write: 'You want a book of rules, while I think that when one reaches a certain age, one ought to be ashamed of having to use one', and 'the truly free man creates his own morality' (Alexander Herzen, *From the Other Shore*, ed. I. Berlin, London, 1956, pp. 28 and 141); this is little different from the views of a contemporary logical positivist such as Hans Reichenbach who argues in *The Rise of Scientific Philosophy*, Berkeley, Calif., 1949, p. 141 that 'the power of reason must be sought not in rules that reason dictates to our imagination, but in the ability to free ourselves from any kind of rules to which we have been conditioned through experience and tradition'. The statement by J. M. Keynes, *Two Memoirs*, London, 1949, p. 97, which on earlier occasions I have quoted in this connection, appears to me to have largely lost its significance in this context since Michael Holroyd in *Lytton Strachey, a Critical Biography*, London, 1967 and 1968, has shown that the majority of the members of the group about which Keynes spoke, including himself, were homosexual, which is probably a sufficient explanation of their revolt against ruling morals.

and against the truth of evolution, and against Christ's interpretation of the Hebrew Gods, and against any attempt to change the mistaken old ways and ideas. The pretence is made, as it has been made in relation to the finding of any extension of truth, that to do away with right and wrong would produce uncivilized people, immorality, lawlessness and social chaos. The fact is that most psychiatrists and psychologists and many other respectable people have escaped from these moral chains and are able to observe and think freely. . . . If the race is to be freed from its crippling burden of good and evil it must be psychiatrists who take the original responsibility. This is a challenge which must be met. . . . With the other human sciences, psychiatry must now decide what is to be the immediate future of the human race. No one else can. And this is the prime responsibility of psychiatry.

It never seemed to occur to Chisholm that moral rules do not directly serve the satisfaction of individual desires, but are required to assist the functioning of an order; and even to tame some instincts, which man has inherited from his life in small groups where he passed most of his evolution. It may well be that the incorrigible barbarian in our midst resents these restraints. But are psychiatrists really the competent authorities to give us new morals?

Chisholm finally expresses the hope that two or three million trained psychiatrists, with the assistance of appropriate salesmanship, will soon succeed in freeing men from the 'perverse' concept of right and wrong. It sometimes seems as if they have already had too much success in this direction.

My second contemporary example of the destruction of values by scientific error is taken from jurisprudence. There is no need in this instance to identify the author of the statement I shall quote as belonging to the same category. It comes from no less a figure than my former teacher at the University of Vienna, Hans Kelsen. He assures us that 'justice is an irrational idea', and continues:²³

²³ Hans Kelsen, *What is Justice?*, Berkeley, Calif., 1957, p. 21; almost literally the same statement occurs in *General Theory of Law and State*, Cambridge, Mass., 1949, p. 13. The elimination from the law of the concept of justice was of course not a discovery of Kelsen but is common to the whole of legal positivism and is particularly characteristic of the German theorists of law around the turn of the century of whom Alfred von Martin, *Mensch und Gesellschaft Heute*, Frankfurt a.M., 1965, p. 265, rightly says: 'In wilhelminischer Zeit machten schliesslich, wie Graf Harry Kessler in seinen

[continued overleaf]

from the point of view of rational cognition, there are only interests of human beings and hence conflicts of interest. The solution of these can be brought about either by satisfying one interest at the expense of the other, or by a compromise between the existing interests. It is not possible to prove that the one or the other solution is just.

Law is thus for Kelsen a deliberate construction, serving known particular interests. This might indeed be necessarily so, if we had ever to create anew the whole body of rules of just conduct. I will even concede to Kelsen that we can never positively prove what is just. But this does not preclude our ability to say when a rule is unjust, or that by the persistent application of such a negative test of injustice we may not be able progressively to approach justice.

It is true that this applies only to the rules of just conduct for individuals, and not to what Kelsen, like all socialists, had primarily in mind – namely, those aims of the deliberate measures employed by authority to achieve what is called ‘social justice’. Yet neither positive nor negative criteria of an objective kind exist, from which to define or test so-called ‘social justice’, which is one of the emptiest of all phrases.

The nineteenth-century ideal of liberty was based on the conviction that there were such objective general rules of just conduct; and the false assertion that justice is always merely a matter of particular interests has contributed a great deal to creating the belief that we have no choice but to assign to each individual what is regarded as right by those who for the time being hold the power.

9

Let me clearly state the consequences that seem to follow from what I have said about the principles for legitimate criticism of social formations. After laying the previous foundations, this can be done in comparatively few words. I must at once warn you, however, that

Erinnerungen berichtet, berühmte deutsche Rechtslehrer so etwas wie einen Sport daraus, bei jeder Gelegenheit zu betonen, dass Gerechtigkeit natürlich nicht das Geringste mit Recht zu tun habe. Die Frucht war die Lehre von der entscheidenden rechtlichen Potenz der “Entscheidung”, der Dezisionismus Carl Schmitts, des Kronjuristen der braunen Diktatur.’

A good account of the dissolution of German liberalism by legal positivism will be found in John H. Hallowell, *The Decline of Liberalism as an Ideology with Particular Reference to German Politico-Legal Thought*, Berkeley, Calif., 1943.

the conservatives among you, who up to this point may be rejoicing, will now probably be disappointed. The proper conclusion from the considerations I have advanced is by no means that we may confidently accept all the old and traditional values. Nor even that there are *any* values or moral principles, which science may not occasionally question. The social scientist who endeavours to understand how society functions, and to discover where it can be improved, must claim the right critically to examine, and even to judge, every *single* value of our society. The consequence of what I have said is merely that we can never at one and the same time question *all* its values. Such absolute doubt could lead only to the destruction of our civilisation and – in view of the numbers to which economic progress has allowed the human race to grow – to extreme misery and starvation. Complete abandonment of all traditional values is, of course, impossible; it would make man incapable of acting. If traditional and taught values formed by man in the course of the evolution of civilisation were renounced, this could only mean falling back on those instinctive values, which man developed in hundreds of thousands of years of tribal life, and which are now probably in a measure innate. These instinctive values are often irreconcilable with the basic principles of an open society – namely, the application of the same rules of just conduct to our relations with all other men – which our young revolutionaries also profess. The possibility of such a great society certainly does not rest on instincts, but on the governance of acquired rules. This is the discipline of reason.²⁴ It curbs instinctive impulses, and relies on rules of conduct which have originated in an interpersonal mental process. As the result of this process, in the course of time all the separate individual sets of values become slowly adapted to each other.

The process of the evolution of a system of values passed on by cultural transmission must implicitly rest on criticism of individual values in the light of their consistency, or compatibility, with all other values of society, which for this purpose must be taken as given and undoubted. The only standard by which we can judge particular values of our society is the entire body of other values of that same society. More precisely, the factually existing, but always

24. The term reason is here used in the sense explained by John Locke, *Essays on the Law of Nature*, ed. W. von Leyden, Oxford, 1954, p. 111: 'By reason, however, I do not think is meant here the faculty of the understanding which forms trains of thought and deduces proofs, but certain definite principles of action from which spring all virtues and whatever is necessary for the proper moulding of morals.'

imperfect, order of actions produced by obedience to these values provides the touchstone for evaluation. Because prevailing systems of morals or values do not always give unambiguous answers to the questions which arise, but often prove to be internally contradictory, we are forced to develop and refine such moral systems continuously. We shall sometimes be constrained to sacrifice some moral value, but always only to other moral values which we regard as superior. We cannot escape this choice, because it is part of an indispensable process. In the course of it we are certain to make many mistakes. Sometimes whole groups, and perhaps entire nations, will decline, because they chose the wrong values. Reason has to prove itself in this mutual adjustment of given values, and must perform its most important but very unpopular task – namely, to point out the inner contradictions of our thinking and feeling.

The picture of man as a being who, thanks to his reason, can rise above the values of his civilisation, in order to judge it from the outside, or from a higher point of view, is an illusion. It simply must be understood that reason itself is part of civilisation. All we can ever do is to confront one part with the other parts. Even this process leads to incessant movement, which may in the very long course of time change the whole. But sudden complete reconstruction of the whole is not possible at any stage of the process, because we must always use the material that is available, and which itself is the integrated product of a process of evolution.

I hope it has become sufficiently clear that it is not, as may sometimes appear, the progress of science which threatens our civilisation, but scientific error, based usually on the presumption of knowledge which in fact we do not possess. This lays upon science the responsibility to make good the harm its representatives have done. Growth of knowledge produces the insight that we can now aim at the goals which the present state of science has brought within our reach thanks only to the governance of values, which we have not made, and the significance of which we still only very imperfectly understand. So long as we cannot yet agree on crucial questions, such as whether a competitive market order is possible without the recognition of private several property in the instruments of production, it is clear that we still understand only very imperfectly the fundamental principles on which the existing order is based.

If scientists are so little aware of the responsibility they have incurred by failing to comprehend the role of values for the preserva-

tion of the social order, this is largely due to the notion that science as such has nothing to say about the validity of values. The *true* statement that, from our understanding of causal connections between facts alone, we can derive no conclusions about the validity of values, has been extended into the false belief that science has nothing to do with values.

This attitude should change immediately scientific analysis shows that the existing factual order of society exists only because people accept certain values. With regard to such a social system, we cannot even make statements about the effects of particular events without assuming that certain norms are being generally obeyed.²⁵ From such premises containing values it is perfectly possible to derive conclusions about the compatibility, or incompatibility, of the various values presupposed in an argument. It is therefore incorrect if, from the postulate that science ought to be free of values, the conclusion is drawn that within a given system problems of value cannot be rationally decided. When we have to deal with an ongoing process for the ordering of society, in which most of the governing values are unquestioned, there will often be only one certain answer to particular questions that is compatible with the rest of the system.²⁶

25 Cf. in this connection the argument in H. A. L. Hart, *The Concept of Law*, Oxford, 1961, p. 188: 'Our concern is with social arrangements for continued existence, not with those of a suicide club. We wish to know whether, among these social arrangements, there are some which are illuminatingly ranked as natural laws discoverable by reason, and what their relation is to human law and morality. To raise this or any other question *how* men would live together, we must assume that their aim, generally speaking, is to live. From this point the argument is a simple one. Reflection on some very obvious generalisations – indeed truisms – concerning human nature and the world in which men live, show that as long as they hold good, there are certain rules of conduct which any social organisation must contain if it is to be viable.' Similar considerations of an anthropologist are to be found in S. F. Nadel, *Anthropology and Modern Life*, Canberra, 1953, pp. 16–22.

26 My position in this respect has become very much like that which Luigi Einaudi has well described in his introduction to a book by C. Bresciani-Turroni which I know only in its German translation, *Einführung in die Wirtschaftspolitik*, Bern, 1948, p. 13. He relates there how he used to believe that the economist had silently to accept the goals pursued by the legislator but had become increasingly doubtful about this, and might some day arrive at the conclusion that the economist ought to combine his task of a critic of the means with a similar critique of the ends, and that this may prove as much a part of science as the investigation of the means to which science at present confines itself. He adds that the study of the correspondence of means and ends and of the logical consistency of the posited ends may be much more difficult than, and certainly of equal moral value to, all considerations of the acceptability and evaluation of the separate ends.

The Errors of Constructivism

We have the curious spectacle that frequently the very same scientists, who particularly emphasise the *wertfrei* (value free) character of science, use that science to discredit prevailing values as the expression of irrational emotions or particular material interests. Such scientists often give the impression that the only value judgment that is scientifically respectable is the view that our values have no value. This attitude is therefore the result of a defective understanding of the connection between accepted values and the prevailing factual order.²⁷ All that we can do – and must do – is to test each and every value about which doubts are raised by the standard of other values, which we can assume that our listeners or readers share with us. At present the postulate that we should avoid all value judgments seems to me often to have become a mere excuse of the timid, who do not wish to offend anyone and thus conceal their preferences. Even more frequently, it is an attempt to conceal from themselves rational comprehension of the choices we have to make between possibilities open to us, which force us to sacrifice some aims we wish also to realise.

One of the noblest tasks of social science, it seems to me, is to show up clearly these conflicts of values.

Thus it is possible to demonstrate that what depends on the acceptance of values, which do not appear as consciously pursued aims of individuals or groups, are the very foundations of the factual order, whose existence we presuppose in all our individual endeavours.

²⁷ A good illustration of what is said in the text is apparently offered by the lectures of Gunnar Myrdal on *Objectivity in Social Research* from which *The Times Literary Supplement* of 19 February 1970 quotes a definition of 'scientific objectivity' as the freeing of the student from '(1) the powerful heritage of earlier writings in his field of inquiry, ordinarily containing normative and teleological notions inherited from past generations and founded upon the metaphysical moral philosophies of natural law and utilitarianism from which all our social and economic theories have branched off; (2) the influence of the entire cultural, social, economic, and political milieu of the society where he lives, works and earns his living and his status; and (3) the influence stemming from his own personality as molded not only by traditions and environment but also by his individual history, constitution and inclinations.'

CHAPTER TWO

*The Pretence of Knowledge**

The particular occasion of this lecture, combined with the chief practical problem which economists have to face today, have made the choice of its topic almost inevitable. On the one hand the still recent establishment of the Nobel Memorial Prize in Economic Science marks a significant step in the process by which, in the opinion of the general public, economics has been conceded some of the dignity and prestige of the physical sciences. On the other hand, the economists are at this moment called upon to say how to extricate the free world from the serious threat of accelerating inflation which, it must be admitted, has been brought about by policies which the majority of economists recommended and even urged governments to pursue. We have indeed at the moment little cause for pride: as a profession we have made a mess of things.

It seems to me that this failure of the economists to guide policy more successfully is closely connected with their propensity to imitate as closely as possible the procedures of the brilliantly successful physical sciences – an attempt which in our field may lead to outright error. It is an approach which has come to be described as the ‘scientistic’ attitude – an attitude which, as I defined it some thirty years ago, ‘is decidedly unscientific in the true sense of the word, since it involves a mechanical and uncritical application of habits of thought to fields different from those in which they have been formed’.¹ I want today to begin by explaining how some of the gravest errors of recent economic policy are a direct consequence of this scientistic error.

The theory which has been guiding monetary and financial policy

* Nobel Memorial Lecture, delivered at Stockholm, 11 December 1974, and reprinted from *Les Prix Nobel en 1974*, Stockholm, 1975.

¹ ‘Scientism and the study of society’, *Economica*, vol. IX, no. 35, August 1942, reprinted in *The Counter-Revolution of Science*, Chicago, 1952.

during the last thirty years, and which I contend is largely the product of such a mistaken conception of the proper scientific procedure, consists in the assertion that there exists a simple positive correlation between total employment and the size of the aggregate demand for goods and services; it leads to the belief that we can permanently assure full employment by maintaining total money expenditure at an appropriate level. Among the various theories advanced to account for extensive unemployment, this is probably the only one in support of which strong quantitative evidence can be adduced. I nevertheless regard it as fundamentally false, and to act upon it, as we now experience, as very harmful.

This brings me to the crucial issue. Unlike the position that exists in the physical sciences, in economics and other disciplines that deal with essentially complex phenomena, the aspects of the events to be accounted for about which we can get quantitative data are necessarily limited and may not include the important ones. While in the physical sciences it is generally assumed, probably with good reason, that any important factor which determines the observed events will itself be directly observable and measurable, in the study of such complex phenomena as the market, which depend on the actions of many individuals, all the circumstances which will determine the outcome of a process, for reasons which I shall explain later, will hardly ever be fully known or measurable. And while in the physical sciences the investigator will be able to measure what, on the basis of a *prima facie* theory, he thinks important, in the social sciences often that is treated as important which happens to be accessible to measurement. This is sometimes carried to the point where it is demanded that our theories must be formulated in such terms that they refer only to measurable magnitudes.

It can hardly be denied that such a demand quite arbitrarily limits the facts which are to be admitted as possible causes of the events which occur in the real world. This view, which is often quite naïvely accepted as required by scientific procedure, has some rather paradoxical consequences. We know, of course, with regard to the market and similar social structures, a great many facts which we cannot measure and on which indeed we have only some very imprecise and general information. And because the effects of these facts in any particular instance cannot be confirmed by quantitative evidence, they are simply disregarded by those sworn to admit only what they regard as scientific evidence: they thereupon

happily proceed on the fiction that the factors which they can measure are the only ones that are relevant.

The correlation between aggregate demand and total employment, for instance, may only be approximate, but as it is the *only* one on which we have quantitative data, it is accepted as the only causal connection that counts. On this standard there may thus well exist better 'scientific' evidence for a false theory, which will be accepted because it is more 'scientific', than for a valid explanation, which is rejected because there is no sufficient quantitative evidence for it.

Let me illustrate this by a brief sketch of what I regard as the chief actual cause of extensive unemployment – an account which will also explain why such unemployment cannot be lastingly cured by the inflationary policies recommended by the now fashionable theory. This correct explanation appears to me to be the existence of discrepancies between the distribution of demand among the different goods and services and the allocation of labour and other resources among the production of those outputs. We possess a fairly good 'qualitative' knowledge of the forces by which a correspondence between demand and supply in the different sectors of the economic system is brought about, of the conditions under which it will be achieved, and of the factors likely to prevent such an adjustment. The separate steps in the account of this process rely on facts of everyday experience, and few who take the trouble to follow the argument will question the validity of the factual assumptions, or the logical correctness of the conclusions drawn from them. We have indeed good reason to believe that unemployment indicates that the structure of relative prices and wages has been distorted (usually by monopolistic or governmental price fixing), and that in order to restore equality between the demand and the supply of labour in all sectors changes of relative prices and some transfers of labour will be necessary.

But when we are asked for quantitative evidence for the particular structure of prices and wages that would be required in order to assure a smooth continuous sale of the products and services offered, we must admit that we have no such information. We know, in other words, the general conditions in which what we call, somewhat misleadingly, an equilibrium will establish itself: but we never know what the particular prices or wages are which would exist if the market were to bring about such an equilibrium. We can merely say what the conditions are in which we can expect the market to

establish prices and wages at which demand will equal supply. But we can never produce statistical information which would show how much the prevailing prices and wages *deviate* from those which would secure a continuous sale of the current supply of labour. Though this account of the causes of unemployment is an empirical theory, in the sense that it might be proved false, for example if, with a constant money supply, a general increase of wages did not lead to unemployment, it is certainly not the kind of theory which we could use to obtain specific numerical predictions concerning the rates of wages, or the distribution of labour, to be expected.

Why should we, however, in economics, have to plead ignorance of the sort of facts on which, in the case of a physical theory, a scientist would certainly be expected to give precise information? It is probably not surprising that those impressed by the example of the physical sciences should find this position very unsatisfactory and should insist on the standards of proof which they find there. The reason for this state of affairs is the fact, to which I have already briefly referred, that the social sciences, like much of biology but unlike most fields of the physical sciences, have to deal with structures of *essential* complexity, i.e. with structures whose characteristic properties can be exhibited only by models made up of relatively large numbers of variables. Competition, for instance, is a process which will produce certain results only if it proceeds among a fairly large number of acting persons.

In some fields, particularly where problems of a similar kind arise in the physical sciences, the difficulties can be overcome by using, instead of specific information about the individual elements, data about the relative frequency, or the probability, of the occurrence of the various distinctive properties of the elements. But this is true only where we have to deal with what has been called by Dr Warren Weaver (formerly of the Rockefeller Foundation), with a distinction which ought to be much more widely understood, 'phenomena of unorganized complexity', in contrast to those 'phenomena of organized complexity' with which we have to deal in the social sciences.² Organized complexity here means that the character of the structures showing it depends not only on the properties of the individual elements of which they are composed, and the relative frequency with which they occur, but also on the manner

² Warren Weaver, 'A quarter century in the natural sciences', *The Rockefeller Foundation Annual Report 1958*, chapter I, 'Science and complexity'.

in which the individual elements are connected with each other. In the explanation of the working of such structures we can for this reason not replace the information about the individual elements by statistical information, but require full information about each element if from our theory we are to derive specific predictions about individual events. Without such specific information about the individual elements we shall be confined to what on another occasion I have called mere pattern predictions – predictions of some of the general attributes of the structures that will form themselves, but not containing specific statements about the individual elements of which the structures will be made up.³

This is particularly true of our theories accounting for the determination of the systems of relative prices and wages that will form themselves on a well-functioning market. Into the determination of these prices and wages there will enter the effects of particular information possessed by every one of the participants in the market process – a sum of facts which in their totality cannot be known to the scientific observer, or to any other single brain. It is indeed the source of the superiority of the market order, and the reason why, when it is not suppressed by the powers of government, it regularly displaces other types of order, that in the resulting allocation of resources more of the knowledge of particular facts will be utilized which exists only dispersed among uncounted persons, than any one person can possess. But because we, the observing scientists, can thus never know all the determinants of such an order, and in consequence also cannot know at which particular structure of prices and wages demand would everywhere equal supply, we also cannot measure the deviations from that order; nor can we statistically test our theory that it is the deviations from that 'equilibrium' system of prices and wages which make it impossible to sell some of the products and services at the prices at which they are offered.

Before I continue with my immediate concern, the effects of all this on the employment policies currently pursued, allow me to define more specifically the inherent limitations of our numerical knowledge which are so often overlooked. I want to do this to avoid giving the impression that I generally reject the mathematical

³ See my essay 'The theory of complex phenomena' in *The Critical Approach to Science and Philosophy. Essays in Honor of K. R. Popper*, ed. M. Bunge, New York, 1964, and reprinted (with additions) in my *Studies in Philosophy, Politics and Economics*, London and Chicago, 1967.

method in economics. I regard it in fact as the great advantage of the mathematical technique that it allows us to describe, by means of algebraic equations, the general character of a pattern even where we are ignorant of the numerical values which will determine its particular manifestation. We could scarcely have achieved that comprehensive picture of the mutual interdependencies of the different events in a market without this algebraic technique. It has led to the illusion, however, that we can use this technique for the determination and prediction of the numerical values of those magnitudes; and this has led to a vain search for quantitative or numerical constants. This happened in spite of the fact that the modern founders of mathematical economics had no such illusions. It is true that their systems of equations describing the pattern of a market equilibrium are so framed that *if* we were able to fill in all the blanks of the abstract formulae, i.e. *if* we knew all the parameters of these equations, we could calculate the prices and quantities of all commodities and services sold. But, as Vilfredo Pareto, one of the founders of this theory, clearly stated, its purpose cannot be 'to arrive at a numerical calculation of prices', because, as he said, it would be 'absurd' to assume that we could ascertain all the data.⁴ Indeed, the chief point was already seen by those remarkable anticipators of modern economics, the Spanish schoolmen of the sixteenth century, who emphasized that what they called *pretium mathematicum*, the mathematical price, depended on so many particular circumstances that it could never be known to man but was known only to God.⁵ I sometimes wish that our mathematical economists would take this to heart. I must confess that I still doubt whether their search for measurable magnitudes has made significant contributions to our *theoretical* understanding of economic phenomena – as distinct from their value as a description of particular situations. Nor am I prepared to accept the excuse that this branch of research is still very young: Sir William Petty, the founder of econometrics, was after all a somewhat senior colleague of Sir Isaac Newton in the Royal Society!

There may be few instances in which the superstition that only measurable magnitudes can be important has done positive harm in

⁴ V. Pareto, *Manuel d'économie politique*, 2nd ed., Paris, 1927, pp. 223–4.

⁵ See, for example, Luis Molina, *De iustitia et iure*, Cologne, 1596–1600, tom. II, disp. 347, no. 3, and particularly Johannes de Lugo, *Disputationum de iustitia et iure tomus secundus*, Lyon, 1642, disp. 26, sect. 4, no. 40.

the economic field: but the present inflation and employment problems are a very serious one. Its effect has been that what is probably the true cause of extensive unemployment has been disregarded by the scientistically minded majority of economists, because its operation could not be confirmed by directly observable relations between measurable magnitudes, and that an almost exclusive concentration on quantitatively measurable surface phenomena has produced a policy which has made matters worse.

It has, of course, to be readily admitted that the kind of theory which I regard as the true explanation of unemployment is a theory of somewhat limited content because it allows us to make only very general predictions of the *kind* of events which we must expect in a given situation. But the effects on policy of the more ambitious constructions have not been very fortunate and I confess that I prefer true but imperfect knowledge, even if it leaves much indetermined and unpredictable, to a pretence of exact knowledge that is likely to be false. The credit which the apparent conformity with recognized scientific standards can gain for seemingly simple but false theories may, as the present instance shows, have grave consequences.

In fact, in the case discussed, the very measures which the dominant 'macro-economic' theory has recommended as a remedy for unemployment, namely the increase of aggregate demand, have become a cause of a very extensive misallocation of resources which is likely to make later large-scale unemployment inevitable. The continuous injection of additional amounts of money at points of the economic system where it creates a temporary demand which must cease when the increase of the quantity of money stops or slows down, together with the expectation of a continuing rise of prices, draws labour and other resources into employments which can last only so long as the increase of the quantity of money continues at the same rate – or perhaps even only so long as it continues to accelerate at a given rate. What this policy has produced is not so much a level of employment that could not have been brought about in other ways, as a distribution of employment which cannot be indefinitely maintained and which after some time can be maintained only by a rate of inflation which would rapidly lead to a disorganization of all economic activity. The fact is that by a mistaken theoretical view we have been led into a precarious position in which we cannot prevent substantial unemployment from reappearing; not because, as

this view is sometimes misrepresented, this unemployment is deliberately brought about as a means to combat inflation, but because it is now bound to occur as a deeply regrettable but inescapable consequence of the mistaken policies of the past as soon as inflation ceases to accelerate.

I must, however, now leave these problems of immediate practical importance which I have introduced chiefly as an illustration of the momentous consequences that may follow from errors concerning abstract problems of the philosophy of science. There is as much reason to be apprehensive about the long run dangers created in a much wider field by the uncritical acceptance of assertions which have the *appearance* of being scientific as there is with regard to the problems I have just discussed. What I mainly wanted to bring out by the topical illustration is that certainly in my field, but I believe also generally in the sciences of man, what looks superficially like the most scientific procedure is often the most unscientific, and, beyond this, that in these fields there are definite limits to what we can expect science to achieve. This means that to entrust to science – or to deliberate control according to scientific principles – more than scientific methods can achieve may have deplorable effects. The progress of the natural sciences in modern times has of course so much exceeded all expectations that any suggestion that there may be some limits to it is bound to arouse suspicion. Especially all those will resist such an insight who have hoped that our increasing power of prediction and control, generally regarded as the characteristic result of scientific advance, applied to the processes of society, would soon enable us to mould society entirely to our liking. It is indeed true that, in contrast to the exhilaration which the discoveries of the physical sciences tend to produce, the insights which we gain from the study of society more often have a dampening effect on our aspirations; and it is perhaps not surprising that the more impetuous younger members of our profession are not always prepared to accept this. Yet the confidence in the unlimited power of science is only too often based on a false belief that the scientific method consists in the application of a ready-made technique, or in imitating the form rather than the substance of scientific procedure, as if one needed only to follow some cooking recipes to solve all social problems. It sometimes almost seems as if the technique of science were more easily learnt than the thinking that shows us what the problems are and how to approach them.

The conflict between what in its present mood the public expects science to achieve in satisfaction of popular hopes and what is really in its power is a serious matter because, even if the true scientists should all recognize the limitations of what they can do in the field of human affairs, so long as the public expects more there will always be some who will pretend, and perhaps honestly believe, that they can do more to meet popular demands than is really in their power. It is often difficult enough for the expert, and certainly in many instances impossible for the layman, to distinguish between legitimate and illegitimate claims advanced in the name of science. The enormous publicity recently given by the media to a report pronouncing in the name of science on *The Limits to Growth*, and the silence of the same media about the devastating criticism this report has received from the competent experts,⁶ must make one feel somewhat apprehensive about the use to which the prestige of science can be put. But it is by no means only in the field of economics that far-reaching claims are made on behalf of a more scientific direction of all human activities and the desirability of replacing spontaneous processes by 'conscious human control'. If I am not mistaken, psychology, psychiatry and some branches of sociology, not to speak about the so-called philosophy of history, are even more affected by what I have called the scientistic prejudice, and by specious claims of what science can achieve.⁷

If we are to safeguard the reputation of science, and to prevent the arrogation of knowledge based on a superficial similarity of procedure with that of the physical sciences, much effort will have to be directed toward debunking such arrogations, some of which have by now become the vested interests of established university departments. We cannot be grateful enough to such modern philosophers of science as Sir Karl Popper for giving us a test by which we can distinguish between what we may accept as scientific and what not – a test which I am sure some doctrines now widely accepted as

6 See *The Limits to Growth: a Report of the Club of Rome's Project on the Predicament of Mankind*, New York, 1972; for a systematic examination of this by a competent economist, cf. Wilfred Beckerman, *In Defence of Economic Growth*, London, 1974, and, for a list of earlier criticisms by experts, Gottfried Haberler, *Economic Growth and Stability*, Los Angeles, 1974, who rightly calls their effect 'devastating'.

7 I have given some illustrations of these tendencies in other fields in my inaugural lecture as Visiting Professor at the University of Salzburg, *Die Irrtümer des Konstruktivismus und die Grundlagen legitimer Kritik gesellschaftlicher Gebilde*, Munich, 1970, now reissued for the Walter Eucken Institute, at Freiburg i.B., by J. C. B. Mohr, Tübingen, 1975, and reprinted in chapter 1 of this book in an English translation.

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scientific would not pass. There are some special problems, however, in connection with those essentially complex phenomena of which social structures are so important an instance, which make me wish to restate in conclusion in more general terms the reasons why in these fields not only are there absolute obstacles to the prediction of specific events, but why to act as if we possessed scientific knowledge enabling us to transcend them may itself become a serious obstacle to the advance of the human intellect.

The chief point we must remember is that the great and rapid advance of the physical sciences took place in fields where it proved that explanation and prediction could be based on laws which accounted for the observed phenomena as functions of comparatively few variables – either particular facts or relative frequencies of events. This may even be the ultimate reason why we single out these realms as ‘physical’ in contrast to those more highly organized structures which I have here called essentially complex phenomena. There is no reason why the position must be the same in the latter as in the former fields. The difficulties which we encounter in the latter are not, as one might at first suspect, difficulties about formulating theories for the explanation of the observed events – although they cause also special difficulties about testing proposed explanations and therefore about eliminating bad theories. They are due to the chief problem which arises when we apply our theories to any particular situation in the real world. A theory of essentially complex phenomena must refer to a large number of particular facts; and to derive a prediction from it, or to test it, we have to ascertain all these particular facts. Once we succeeded in this there should be no particular difficulty about deriving testable predictions – with the help of modern computers it should be easy enough to insert these data into the appropriate blanks of the theoretical formulae and to derive a prediction. The real difficulty, to the solution of which science has little to contribute, and which is sometimes indeed insoluble, consists in the ascertainment of the particular facts.

A simple example will show the nature of this difficulty. Consider some ball game played by a few people of approximately equal skill. If we knew a few particular facts in addition to our general knowledge of the ability of the individual players, such as their state of attention, their perceptions and the state of their hearts, lungs, muscles, etc., at each moment of the game, we could probably predict the outcome. Indeed, if we were familiar both with the game

and the teams we should probably have a fairly shrewd idea on what the outcome will depend. But we shall of course not be able to ascertain those facts and in consequence the result of the game will be outside the range of the scientifically predictable, however well we may know what effects particular events would have on the result of the game. This does not mean that we can make no predictions at all about the course of such a game. If we know the rules of the different games we shall, in watching one, very soon know which game is being played and what kinds of actions we can expect and what kind not. But our capacity to predict will be confined to such general characteristics of the events to be expected and not include the capacity of predicting particular individual events.

This corresponds to what I have called earlier the mere pattern predictions to which we are increasingly confined as we penetrate from the realm in which relatively simple laws prevail into the range of phenomena where organized complexity rules. As we advance we find more and more frequently that we can in fact ascertain only some but not all the particular circumstances which determine the outcome of a given process; and in consequence we are able to predict only some but not all the properties of the result we have to expect. Often all that we shall be able to predict will be some abstract characteristic of the pattern that will appear — relations between kinds of elements about which individually we know very little. Yet, as I am anxious to repeat, we will still achieve predictions which can be falsified and which therefore are of empirical significance.

Of course, compared with the precise predictions we have learnt to expect in the physical sciences, this sort of mere pattern predictions is a second best with which one does not like to have to be content. Yet the danger of which I want to warn is precisely the belief that in order to have a claim to be accepted as scientific it is necessary to achieve more. This way lies charlatanism and worse. To act on the belief that we possess the knowledge and the power which enable us to shape the processes of society entirely to our liking, knowledge which in fact we do *not* possess, is likely to make us do much harm. In the physical sciences there may be little objection to trying to do the impossible; one might even feel that one ought not to discourage the over-confident because their experiments may after all produce some new insights. But in the social field the erroneous belief that the exercise of some power would have beneficial consequences is likely to lead to a new power to coerce other men being conferred on

some authority. Even if such power is not in itself bad, its exercise is likely to impede the functioning of those spontaneous ordering forces by which, without understanding them, man is in fact so largely assisted in the pursuit of his aims. We are only beginning to understand on how subtle a communication system the functioning of an advanced industrial society is based – a communications system which we call the market and which turns out to be a more efficient mechanism for digesting dispersed information than any that man has deliberately designed.

If man is not to do more harm than good in his efforts to improve the social order, he will have to learn that in this, as in all other fields where essential complexity of an organized kind prevails, he cannot acquire the full knowledge which would make mastery of the events possible. He will therefore have to use what knowledge he can achieve, not to shape the results as the craftsman shapes his handiwork, but rather to cultivate a growth by providing the appropriate environment, in the manner in which the gardener does this for his plants. There is danger in the exuberant feeling of ever growing power which the advance of the physical sciences has engendered and which tempts man to try, 'dizzy with success', to use a characteristic phrase of early communism, to subject not only our natural but also our human environment to the control of a human will. The recognition of the insuperable limits to his knowledge ought indeed to teach the student of society a lesson in humility which should guard him against becoming an accomplice in men's fatal striving to control society – a striving which makes him not only a tyrant over his fellows, but which may well make him the destroyer of a civilization which no brain has designed but which has grown from the free efforts of millions of individuals.

CHAPTER THREE

*The Primacy of the Abstract**

I did not bring a written paper as I preferred to leave it to the course of the discussion to determine in what direction I could best supplement it. Perhaps, however, it was quite as much a tacit hope that the discussion would provide me with an excuse to talk about a problem in which at the moment I am much interested but on which my ideas have not yet reached the clarity required for writing a formal paper. As I was listening I have indeed come to the conclusion that this is the most useful thing I can attempt to do and I am now taking my courage in both hands to present to you, as well as I can from a few notes,¹ some half-baked ideas about what I have called 'The Primacy of the Abstract'.²

I

What I shall try to explain under this paradoxical heading seems to me in some ways merely a final step in a long development, which would probably have been explicitly formulated some time ago had it not required the overcoming of a barrier built into the language which we have to employ. This is shown by the necessity in which I found myself of describing my subject by an apparent contradiction in terms. We simply have no other suitable term to describe what we call 'abstract' than this expression which implies that we deal with something 'abstracted' or derived from some other previously

* Reprinted from the 'Alpbach Symposium', *Beyond Reductionism*, ed. A. Koestler and J. R. Smythies, London, 1969, for which I had written up from my notes the essence of a talk I had given at Alpbach on 7 June 1968.

1 The numbered paragraphs in the present written paper correspond to the headings of the notes from which I spoke. Beyond this I have followed only partly the transcript of the tape recording. Not everything as now written was contained or came out clearly in the oral presentation.

2 I could, of course, instead have spoken of 'the primacy of the general', but this would not have had the shock effect which is the merit of the phrase chosen.

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existing mental entity or entities which in some respect are richer or 'more concrete'. The contention which I want to expound and defend here is that, on the contrary, all the conscious experience that we regard as relatively concrete and primary, in particular all sensations, perceptions and images, are the product of a superimposition of many 'classifications'³ of the events perceived according to their significance in many respects. These classifications are to us difficult or impossible to disentangle because they happen simultaneously, but are nevertheless the constituents of the richer experiences which are built up from these abstract elements.

My main concern in all this will not be to argue the truth of my contention but to ask what is its significance if true. I shall in a moment try to show that the phrase of the title merely brings under one heading several conceptions which have emerged independently in different fields. They will not be quoted as conclusive evidence for the truth of my thesis, but merely as a justification for examining the consequences that would follow if it were true. Without entering into a detailed account of the different theories in question, these references must remain very summary and incomplete. But I want to leave as much time as possible for showing in what way the conception suggested might provide a clue to a number of interesting questions, and have a liberating effect on one's thinking.

2

First I want to explain more fully what I mean by the 'primacy' of the abstract. I do not mean by this primarily a genetic sequence, although an evolutionary movement from the perception of abstract patterns to that of particular objects is also involved. The primacy with which I am mainly concerned is a causal one, that is, it refers to what, in the explanation of mental phenomena, must come first and can be used to explain the other. I do not wish to deny that in our conscious experience, or introspectively, concrete particulars occupy the central place and the abstractions appear to be derived from them. But this subjective experience appears to me to be the source of the error with which I am concerned, the appearance which prevents us from recognizing that these concrete particulars are the

³ For a justification of this, and a few related terms I shall occasionally use, see my earlier book *The Sensory Order*, London and Chicago, 1952, in which, as it now seems to me, much of what I shall have to say was already implicitly contained.

product of abstractions which the mind must possess in order that it should be able to experience particular sensations, perceptions, or images. If, indeed, all we are aware of are concrete particulars, this does not preclude our being aware of them only because the mind is capable of operating in accordance with abstract rules which we can discover in that mind, but which it must have possessed before we were able to perceive the particulars from which we believe the abstractions to be derived. What I contend, in short, is that the mind must be capable of performing abstract operations in order to be able to perceive particulars, and that this capacity appears long before we can speak of a conscious awareness of particulars. Subjectively, we live in a concrete world and may have the greatest difficulty in discovering even a few of the abstract relations which enable us to discriminate between different things and to respond to them differentially. But when we want to explain what makes us tick, we must start with the abstract relations governing the order which, as a whole, gives particulars their distinct place.

So far this may sound pretty obvious, but when we reflect on the implications, they would mean little less than that psychology and the theory of knowledge frequently start at the wrong end. From the assertion that the abstract presupposes the concrete rather than the concrete the abstract (in the sense that in the mind the abstract can exist without the concrete, but not the concrete without the abstract) a wholly erroneous approach results which treats as given what most requires explanation.

3

Let me now remind you briefly of the chief developments in the various disciplines concerned, which seem to me instances of my general proposition. The chief support comes, of course, from ethology, and especially from the dummy experiments with fishes and birds that show that they respond in the same manner to a great variety of shapes which have only some very abstract features in common. It seems to follow that probably most animals recognize, not what we would regard as concrete particulars, or particular individuals, but abstract features long before they can identify particulars. This is indicated most clearly by the theoretical framework developed by ethology, which distinguishes between the 'innate releasing patterns' and the mechanism through which these

evoke certain 'action patterns', where both concepts refer not to particular events, but to classes of combinations of stimuli and their effects in inducing a preparedness for one of a class of actions, which are both definable only in abstract terms.⁴

Similar insights have been gained by human sensory psychology in the course of its gradual emancipation from the conception of simple elementary sensations from which, in a mosaic fashion, the representations of the environment were supposed to be built up.⁵ From H. von Helmholtz's still insufficiently appreciated conception of 'unconscious inference' and the similar ideas of C. S. Peirce⁶ to F. Bartlett's interpretation of perceptions as 'inferential constructs', of which Koestler has reminded us, and culminating in the Gestalt school, which now proves to have emphasized only one aspect of a much wider phenomenon,⁷ they all stress in one way or another that our perception of the external world is made possible by the mind possessing an organizing capacity; and that what used to be called elementary qualities are its product rather than its material.⁸

Another important development in a similar direction is the increasing awareness that all our actions must be conceived of as being guided by rules of which we are not conscious but which in their joint influence enable us to exercise extremely complicated skills without having any idea of the particular sequence of movements involved. (This capacity is often inadequately described as 'intuitive knowledge'.) From Gilbert Ryle's now familiar distinction between the 'knowledge how' to do a thing and the 'knowledge that' it is so and so,⁹ through Michael Polanyi's analysis of skills (and the closely connected concept of 'physiognomy perception'),¹⁰ to R. S.

4 Cf., for example, W. H. Thorpe, *Learning and Instinct in Animals*, 2nd ed., London, 1963, p. 130.

5 See on what immediately follows my *The Sensory Order* quoted before.

6 C. S. Peirce, *Collected Papers*, vol. I, p. 38.

7 In a paper which I have come to know only since delivering this talk, M. Merleau-Ponty discusses under a heading very similar to that of this paper, the 'primacy of perception' over sensation. See his volume, *The Primacy of Perception*, ed. J. M. Edie, Evanston, Ill., 1964, pp. 12 ff.

8 Cf. further J. C. Gibson, *The Perception of the Visual World*, Boston, 1950, W. H. Thorpe, *op. cit.*, p. 129, and particularly Ivo Kohler, 'Experiments with Goggles', *Scientific American*, May 1962, who speaks of the 'general rules' by which the visual system learns to correct exceedingly complex and variable distortions produced by prismatic spectacles.

9 G. Ryle, 'Knowing how and knowing that', *Proc. Arist. Soc.* 1945-6, and *The Concept of Mind*, London, 1949.

10 M. Polanyi, *Personal Knowledge*, London, 1959.

Peters's highly important discussion of the significance of non-articulated rules in determining action, there has been an increasing stress on mental factors which govern all our acting and thinking without being known to us, and which can be described only as abstract rules guiding us without our knowledge.

The field, however, in which it has come out most clearly that our mental activities are not guided solely or even chiefly by the particulars at which they are consciously directed, or of which the acting mind is aware, but by abstract rules which it cannot be said to know yet which nevertheless guide it, is modern linguistics. I do not know enough about it to discuss it at any length, but the chief point has indeed been brought out as long as 200 years ago by Adam Ferguson in one of my favourite passages of his great work which I cannot refrain from quoting:¹¹

The peasant, or the child, can reason and judge, and speak his language, with a discernment, a consistency, and a regard to analogy, which perplex the logician, the moralist, and the grammarian, when they would find the principles upon which the proceeding is grounded, or when they would bring to general rule, what is so familiar, and so well sustained in particular cases.

You all know how far this conception of the elaborate theory of the grammar of his language which the small child can observe without having any conscious idea of its existence has been carried by Noam Chomsky¹² and his school of transformational-generative grammar.

4.

When I now turn to the substance of my thesis it will be expedient to begin by considering, not how we interpret the external world, but how this interpretation governs our actions. It is easier first to show how particular actions are determined by the superimposition of various instructions concerning the several attributes of the action

¹¹ Adam Ferguson, *An Essay on the History of Civil Society*, London, 1767, p. 50.

¹² N. Chomsky, *Syntactic Structures*, s'Gravenhage, 1957. I notice in R. H. Robins, *A Short History of Linguistics*, London, 1967, p. 126, that L. Hjelmslev in his early *Principes de grammaire générale*, Copenhagen, 1928, pp. 15, 268, demanded a universal *état abstrait* comprising the possibilities available to language and differently realized in *états concrets* for each particular one which I quote for the interesting use of 'abstract' and 'concrete' in this connection.

to be taken, and only afterwards to consider in what sense the perception of events can also be regarded as a subsumption of particular stimuli, or groups of stimuli, as elements of an abstract class to which a response possessing certain characteristics is appropriate.

The most convenient starting point is the conception of a disposition (or 'set', or propensity, or state) which makes an organism inclined to respond to stimuli of a certain class, not by a particular response, but by a response of a certain kind. What I mean to show in this connection is that what I have called an abstraction is primarily such a disposition towards certain ranges of actions, that the various 'qualities' which we attribute to our sensations and perceptions are these dispositions which they evoke, and that both the specification of a particular experienced event, and the specification of a particular response to it, are the result of a superimposition of many such dispositions to kinds of actions, which result in the connection of particular stimuli with particular actions.

I need not enter here into the detail of the physiological processes involved through which, by raising the threshold of excitation of a great many other neurons, the stream of impulses issuing from one will put a great many others in a state of preparedness to act. The important point is that only very rarely if ever will a single signal sent out from the highest levels of the nervous system evoke an invariable action pattern, and that normally the particular sequence of movements of particular muscles will be the joint result of many superimposed dispositions. A disposition will thus, strictly speaking, not be directed towards a particular action, but towards an action possessing certain properties, and it will be the concurrent effect of many such dispositions which will determine the various attributes of a particular action. A disposition to act will be directed towards a particular pattern of movements only in the abstract sense of pattern, and the execution of the movement will take one of many different possible concrete forms adjusted to the situation taken into account by the joint effect of many other dispositions existing at the moment. The particular movements of, say, a lion jumping on the neck of his prey, will be one of a range of movements in the determination of which account will be taken not only of direction, distance and speed of movement of the prey, but also of the state of the ground (whether smooth or rough, hard or soft), whether it is covered or open territory, the state of fitness of the lion's various limbs – all being present as dispositions together with its disposition

to jump. Every one of these dispositions will refer not to a particular action but to attributes of any action to be taken while the dispositions in question last. It will equally govern the lion's action if it decides to slink away instead of jumping.

The difference between such a determination of an action and the unique response of what we usually call a mechanism when we pull a trigger or press a button, is that each of the various signals ultimately determining the action of the organism at first activates merely a tendency towards one of a range of in some respect equivalent movements; and it will be the overlapping of many generic instructions (corresponding to different 'considerations') which will select a particular movement.

These several dispositions towards *kinds* of movements can be regarded as adaptations to typical features of the environment, and the 'recognition' of such features as the activation of the kind of disposition adapted to them. The perception of something as 'round', for example, would thus consist essentially in the arousal of a disposition towards a class of movements of the limbs or the whole body which have in common only that they consist of a succession of movements of the several muscles which in different scales, dimensions and directions lead to what we call a round movement. It will be these capacities to act in a kind of manner, or of imposing upon the movements certain general characteristics adapted to certain attributes of the environment, which operate as the classifiers identifying certain combinations of stimuli as being of the same kind. The action patterns of a very general character which the organism is capable of imposing upon its movements operate thus as moulds into which the various effects upon it of the external world are fitted.

What this amounts to is that all the 'knowledge' of the external world which such an organism possesses consists in the action patterns which the stimuli tend to evoke, or, with special reference to the human mind, that what we call knowledge is primarily a system of rules of action assisted and modified by rules indicating equivalences or differences or various combinations of stimuli. This, I believe, is the limited truth contained in behaviourism:¹³ that in

¹³ A truth, however, often much more clearly expressed by authors who were very far from being behaviourists: cf., for example, E. Cassirer, *Philosophie der symbolischen Formen II*, Berlin, 1925, p. 193: 'Nicht das blosser Betrachten, sondern das Tun bildet den Mittelpunkt, von dem für uns Menschen die geistige Organisation der Wirklichkeit ihren Ausgangspunkt nimmt.'

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the last resort all sensory experience, perceptions, images, concepts, etc., derive their particular qualitative properties from the rules of action which they put into operation, and that it is meaningless to speak of perceiving or thinking except as a function of an acting organism in which the differentiation of the stimuli manifests itself in the differences of the dispositions to act which they evoke.

The chief points I want to drive home here are that the primary characteristic of an organism is a capacity to govern its actions by rules which determine the properties of its particular movements; that in this sense its actions must be governed by abstract categories long before it experiences conscious mental processes, and that what we call mind is essentially a system of such rules conjointly determining particular actions. In the sphere of action what I have called 'the primacy of the abstract' would then merely mean that the dispositions for a kind of action possessing certain properties comes first and the particular action is determined by the superimposition of many such dispositions.

5

There is still one special point to which I must draw your attention in connection with these action patterns by which the organism responds to – and thereby, as I like to call it, 'classifies' – the various effects on it of events in the external world. This is the limited extent in which it can be said that these action patterns are built up by 'experience'. It seems to me that the organism first develops new potentialities for actions and that only afterwards does experience select and confirm those which are useful as adaptations to typical characteristics of its environment. There will thus be gradually developed by natural selection a repertory of action types adapted to standard features of the environment. Organisms become capable of ever greater varieties of actions, and learn to select among them, as a result of some assisting the preservation of the individual or the species, while other possible actions come to be similarly inhibited or confined to some special constellations of external conditions.

Perhaps I should add, in view of what we have discussed earlier, that nothing in this commits us to a choice between nativism and empiricism, although it makes it seem probable that most of the action patterns by which the organism responds will be innate. The important point is that the action patterns are not built up by the

mind, but that it is by a selection among mechanisms producing different action patterns that the system of rules of action is built up on which rests what we regard as an interpretation of the external world by the mind.

You may already have noticed that what I have been arguing is in some way related to certain developments in the modern theory of knowledge, especially Karl Popper's argument against 'inductivism' – i.e. the argument that we cannot logically derive generalizations from particular experiences, but that the capacity to generalize comes first and the hypotheses are then tested and confirmed or refuted according to their effectiveness as guides to actions. As the organism plays with a great many action patterns of which some are confirmed and retained as conducive to the preservation of the species, corresponding structures of the nervous system producing appropriate dispositions will first appear experimentally and then either be retained or abandoned.

I cannot here more than just mention that this approach evidently also sheds important light on the significance of purely playful activities in the development both of animal and of human intelligence.

6

While my chief contention is the primacy of the rules of action (or dispositions), which are abstract in the sense that they merely impose certain attributes on particular actions (which constitute the 'responses' by which the stimuli or combinations of stimuli are classified), I will now turn to the significance of this for the cognitive processes. I will put my main point first by stating that the formation of abstractions ought to be regarded not as actions of the human mind but rather as something which happens to the mind, or that alters that structure of relationships which we call the mind, and which consists of the system of abstract rules which govern its operation. In other words, we ought to regard what we call mind as a system of abstract rules of action (each 'rule' defining a class of actions) which determines each action by a combination of several such rules; while every appearance of a new rule (or abstraction) constitutes a change in that system, something which its own operations cannot produce but which is brought about by extraneous factors.

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This implies that the richness of the sensory world in which we live, and which defies exhaustive analysis by our mind, is not the starting point from which the mind derives abstractions, but the product of a great range of abstractions which the mind must possess in order to be capable of experiencing that richness of the particular. The difference between this approach and the still predominant one is perhaps best illustrated by an oft-quoted phrase of William James which is very characteristic of the idea that the primitive mind of a higher animal or a small child perceives concrete particulars but lacks abstract relations. James speaks of the 'blossoming, buzzing confusion' of the baby's sensory experience of his environment. This presumably means that the baby can fully perceive such particulars as coloured spots, particular sounds, etc., but that for him these particulars are unordered. I am inclined to believe that, in the case of the baby as well as in that of higher animals, almost the exact opposite is true, namely that they experience a structured world in which the particulars are very indistinct. The baby and the animal certainly do not live in the same sensory world in which we live. But this is so, not because, though their 'sense data' are the same, they have not yet been able to derive from them as many abstractions as we have done, but because of the much thinner net of ordering relations which they possess — because the much smaller number of abstract classes under which they can subsume their impressions makes the qualities which their supposedly elementary sensations possess much less rich. Our experience is so much richer than theirs as a consequence of our mind being equipped, not with relations which are more abstract, but with a greater number of abstract relations not derived from given attributes of the elements. It rather confers these attributes on the elements.

7

Some people are likely to object to this analysis on the ground that the term 'abstract' is properly attributed only to results of conscious thought. I shall later return to this point and in fact question whether we can ever in the same sense be conscious of an abstraction in which we are conscious of the intuitive perceptions of particular events or of images. But before I turn to this question I want to examine a tacit assumption which seems to be uncritically accepted in most discussions of these problems.

It is generally taken for granted that in some sense conscious experience constitutes the 'highest' level in the hierarchy of mental events, and that what is not conscious has remained 'sub-conscious' because it has not yet risen to that level. There can of course be no doubt that many neural processes through which stimuli evoke actions do not become conscious because they proceed on literally too low a level of the central nervous system. But this is no justification for assuming that all the neural events determining action to which no distinct conscious experience corresponds are in this sense sub-conscious. If my conception is correct that abstract rules of which we are not aware determine the sensory (and other) 'qualities' which we consciously experience, this would mean that of much that happens in our mind we are not aware, not because it proceeds at too low a level but because it proceeds at too high a level. It would seem more appropriate to call such processes not 'sub-conscious' but 'super-conscious', because they govern the conscious processes without appearing in them.¹⁴ This would mean that what we consciously experience is only a part, or the result, of processes of which we cannot be conscious, because it is only the multiple classification by the super-structure which assigns to a particular event that determined place in a comprehensive order which makes it a conscious event.

This brings me back to the question of whether we can ever be conscious of all the higher abstractions which govern our thinking. It is rather significant in this connection that we seem to be unable to use such abstractions without resort to concrete symbols which appear to have the capacity of evoking the abstract operations that the mind is capable of performing, but of which we cannot form an intuitive 'picture', and of which, in this sense, we are not conscious. It seems to me that if we ask whether we can ever strictly be conscious of an abstraction in the same sense in which we are conscious of something that we perceive with our senses, the answer is at least uncertain. Is what we call an abstraction perhaps something which had better be described as an operation of the mind and which it can be induced to perform by the perception of appropriate symbols, but which can never 'figure' in conscious experience? I would suggest that at least those abstractions of which it can in some sense

¹⁴ I did not mention in my oral exposition, and therefore will not enlarge here on, the obvious relation of all this to Kant's conception of the categories that govern our thinking -- which I took rather for granted.

be said that we are aware of them, and can communicate them, are a secondary phenomenon, late discoveries by our mind reflecting on itself, and to be distinguished from their primary significances as guides to our acting and thinking.

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The point in all this which I find most difficult to bring out clearly is that the formation of a new abstraction seems *never* to be the outcome of a conscious process, not something at which the mind can deliberately aim, but always a discovery of something which *already* guides its operation. This is closely connected with the fact that the capacity for abstraction manifests itself already in the actions of organisms to which we surely have no reason to attribute anything like consciousness, and that our own actions certainly provide ample evidence of being governed by abstract rules of which we are not aware.

I may perhaps mention here my interest in two apparently wholly different problems, namely the problem of what makes the observed action of other persons intelligible to us, and the problem of what we mean by the expression 'sense of justice'.¹⁵ In this connection I was driven to the conclusions that both our capacity to recognize other people's actions as meaningful, and the capacity to judge actions of our own or of others as just or unjust, must be based on the possession of highly abstract rules governing our actions, although we are not aware of their existence and even less capable of articulating them in words. Recent developments in the theory of linguistics at last make explicit those rules to which older linguists used to refer as the *Sprachgefühl*¹⁶ – which is clearly a phenomenon of the same sort as the sense of justice (*Rechtsgefühl*). Once more the jurists, as they did in ancient Rome,¹⁷ could probably learn a great deal from the 'grammarians'. The point which the lawyers have yet to learn is that what is 'felt but not reasoned' is not, as the word 'feel' might suggest, a matter of emotion, but is determined by processes

15 Cf. chapters 3, 4 and 11 in my *Studies in Philosophy, Politics and Economics*, London and Chicago, 1967, and section 3 of my pamphlet, *The Confusion of Language in Political Thought*, reprinted as chapter 6 of this book.

16 Cf. F. Kainz, *Psychologie der Sprache*, vol. IV, Stuttgart, 1956, p. 343: 'Die Normen, die das Sprachverwenden steuern, das Richtige vom Falschen sondern, bilden in ihrer Gesamtheit das Sprachgefühl.'

17 Peter Stein, *Regulär Juris*, Edinburgh, 1966.

which, though not conscious, have much more in common with intellectual than with emotional processes.

There is still another problem of language on which I must briefly touch. It is probably because in the development of language concrete terms seem to precede abstract terms that it is generally believed that the concrete precedes the abstract. I suspect that even the terms 'concrete' and 'abstract' were introduced by some ancient Latin grammarian and then taken over by the logicians and philosophers. But even if the evolution of words should proceed from concrete to abstract terms, this would not disprove that mental development proceeds in the opposite direction. Once we realize that the capacity to act in accordance with very abstract rules is much older than language, and that man developing language was already guided by a great many abstract rules of action, the fact (if it is a fact) that language begins with names for relatively concrete things would mean no more than that in the development of language the sequence characteristic of the development of mind is reversed.

Even that may be true, however, only if we mean by language the words of which it is made up and not also the manner in which we handle the words. We do not know, of course, whether vocal signs for such abstract concepts as 'danger' or 'food' actually appeared earlier than names for particular things. But if they did not, this is probably due to the fact, already mentioned, that of such abstractions no conscious image can be formed but that they are represented directly by dispositions to certain kinds of actions, while words were developed largely to evoke images of absent things. However that may be, it does not seem to me to mean that if in language abstract terms appear relatively late, we can draw from this any conclusions concerning the development of the mental faculties which govern all action (including speaking).

To identify and name the regularities which govern our own actions may be a much more difficult task than to identify objects of the external world, even though the existence of the former be the condition which makes the latter possible. If, as I suggested, abstractions are something that the conscious mind cannot make but only discover in itself, or something the existence of which constitutes that mind, to become aware of their existence and to be able to give them names may indeed be possible only at a very late stage of intellectual development.

Before I attempt briefly to sum up I should like at least to mention, although I cannot pursue this point at any length, that only the recognition of the primacy of the abstract in the production of mental phenomena can enable us to integrate our knowledge of mind with our knowledge of the physical world. Science can deal only with the abstract. The processes of classification and specification by superimposition of many classes, which would turn out to be the determinants of what we experience subjectively as events in our consciousness, appear then as processes of the same general kind as those with which we are familiar in the physical sciences. And although, as I have argued at length in other places,¹⁸ a complete reduction of the subjectively experienced mental qualities to exhaustively defined places in a network of physical relations is in principle impossible for us, because, as I would now like to put it, we can never become consciously aware of all the abstract relations which govern our mental processes, we can at least arrive at an understanding of what ranges of events lie within the power of those physical forces to produce – even if we cannot aspire to more than what I like to call a limited ‘explanation of the principles’ involved.

In the course of this sketch I have repeatedly used the phrase ‘specification by superimposition’, meaning that particular actions are selected from fields of in some respect equivalent action patterns for which the threshold of activation is lowered, by those being reinforced which also belong to families of action patterns which are equivalent in other respects. This phrase ‘specification by superimposition’ seems to me to be the best description of the mechanism for the operation of which I have claimed the ‘primacy of the abstract’, because each of the causal determinants decides only one of the attributes of the resulting action.

It is this determination of particular actions by various combinations of abstract propensities which makes it possible for a causally determined structure of actions to produce ever new actions it has never produced before, and therefore to produce altogether new

¹⁸ See: *The Sensory Order*, London and Chicago, 1952, chapter VII and *Studies in Philosophy, Politics and Economics*, London and Chicago, 1967, pp. 39 and 60–3.

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behaviour such as we do not expect from what we usually describe as a mechanism. Even a relatively limited repertory of abstract rules that can thus be combined into particular actions will be capable of 'creating' an almost infinite variety of particular actions.

I do not know how far Koestler would be prepared to accept this as a generalization of his account of creation by 'bisociation'. To me it seems to describe much the same process he had in mind in coining that term, except that under my scheme the new may be the result of combination of any number of separately existing features. However, I am concerned with the appearance of the new in a much wider – and more modest – sense than he was in *The Act of Creation*. I am concerned with the fact that almost every action of a complex organism guided by what we call mind is in some respect something new.

I know that we both have in this connection been vainly endeavouring to find a really appropriate name for that stratification or layering of the structures involved which we are all tempted to describe as 'hierarchies'. I have throughout disregarded the fact that the processes I have been considering occur not just on two but on many superimposed layers, that therefore, for instance, I ought to have talked not only of changes in the dispositions to act, but also of changes in the dispositions to change dispositions, and so on. We need a conception of tiers of networks with the highest tier as complex as the lower ones. What I have called abstraction is after all nothing but such a mechanism which designates a large class of events from which particular events are then selected according as they belong also to various other 'abstract' classes.

CHAPTER FOUR

*Two Types of Mind**

Accident has early drawn my attention to the contrast between two types of scientific thinking which I have since again and again been watching with growing fascination. I have long wished to describe the difference but have been deterred by the egotistic character such an account is bound to assume. My interest in it is largely due to the fact that I myself represent a rather extreme instance of the more unconventional type, and that to describe it inevitably means largely talking about myself and must appear like an apology for not conforming to a recognised standard. I have now come to the conclusion, however, that the recognition of the contribution students of this type can make may have important consequences for policy in higher education, and that for this reason such an account may serve a useful purpose.

There exists a stereotype of the great scientist which, though overdrawn, is not entirely wrong. He is seen, above all, as the perfect master of his subject, the man who has at his ready command the whole theory and all the important facts of his discipline and is prepared to answer at a moment's notice all important questions relating to his field. Even if such paragons do not really exist, I have certainly encountered scientists who closely approach this ideal. And many more, I believe, feel that this is the standard at which they ought to aim, and often suffer from a feeling of inadequacy because they fail to attain it. It is also the type we learn to admire because we can watch him in operation. Most of the brilliant

* Reprinted with additions from *Encounter*, vol. 45, September 1975. Since the first publication my attention has been drawn to the fact that there is some similarity between the distinction drawn in this article and that drawn by Sir Isaiah Berlin in his well-known essay, 'The hedgehog and the fox'. This had not occurred to me but is probably true. But if I had been aware of it I would certainly not have wished to claim on my behalf that in contrast to the 'foxes' who know many things, I was a 'hedgehog who knows one big thing'.

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expositors, the most successful teachers, writers and speakers on science, the sparkling conversationalists belong to this class. Their lucid accounts spring from a complete conspectus of the whole of their subject which comprehends not only their own conceptions but equally the theories of others, past and present. No doubt these recognised masters of the existing state of knowledge include also some of the most creative minds, but what I am not certain is whether this particular capacity really helps creativity.

Some of my closest colleagues and best friends have belonged to this type and owe their well-deserved reputation to accomplishments I could never try to emulate. In almost any question about the state of our science I regard them as more competent to provide information than a person of my own sort. They certainly can give a more intelligible account of the subject to an outsider or young student than I could, and are of much greater help to the future practitioner. What I am going to plead is that there is a place in the various institutions for a few specimens of minds of a different type.¹

In my private language I used to describe the recognised standard type of scientists as the memory type. But this is somewhat unfair because their ability is due to a particular kind of memory, and there are also other kinds. I shall therefore here call this type simply the 'master of his subject'. It is the kind of mind who can retain the particular things he has read or heard, often the particular words in which an idea has been expressed, and retain them for a long time. This capacity one may lack, though one may possess a very good short-term memory even for isolated facts, as I know from my own

¹ The first instances of this contrast to strike me were E. von Böhm-Bawerk and F. von Wieser. The former, whom I saw only when I was a boy, was evidently an eminent 'master of his subject', while the latter, my teacher, was in many respects rather a puzzler. J. A. Schumpeter, another representative 'master of his subject', once described him as follows: 'The fellow economist who enters Wieser's intellectual world at once finds himself in a new atmosphere. It is as if one entered a house which nowhere resembles the houses of our time and the plan and furniture of which is strange and not at once intelligible. There is hardly another author who owes as little to other authors as Wieser, fundamentally to none except Menger and to him only a suggestion — with the result that for a long time many fellow economists did not know what to do with Wieser's work. Of his edifice everything is his intellectual property, even where what he says has already been said before him.' (From an article in a Viennese newspaper on the occasion of Wieser's seventieth birthday, quoted at somewhat greater length in my obituary of Wieser reprinted as an introduction to his *Gesammelte Aufsätze*, Tübingen, 1927.) A similar contrast appears to have existed between the two influential Chicago teachers of economics, Jacob Viner, very much a 'master of his subject', and Frank H. Knight, a puzzler if there ever was one.

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experience, at least when I was a very young man. I owe it largely to the capacity to swot up in a few weeks before the end-of-the-year examinations the whole substance of a year's teaching in several subjects in which I had done no work whatever that I managed to complete a school education which gave me access to a university. But I forgot such knowledge as rapidly as I had acquired it; and I always lacked the capacity to retain, for any length of time, the successive steps of a complex argument, or to store in my mind useful information which I could not place into a framework of ideas with which I was familiar.

What preserved me from developing an acute sense of inferiority in the company of those more efficient scholars was that I knew that I owed whatever worthwhile new ideas I ever had to *not* possessing their capacity, i.e. to often *not* being able to remember what every competent specialist is supposed to have at his fingertips. Whenever I saw a new light on something it was as the result of a painful effort to reconstruct an argument which most competent economists would effortlessly and instantly reproduce.

What, then, does my knowledge consist of on which I base my claim to be a trained economist? Certainly not in the distinct recollection of particular statements or arguments. I generally will not be able to reproduce the contents of a book I have read or a lecture I have heard on my subject.² But I have certainly often greatly profited from such books or lectures, of the contents of which I could not possibly give an account even immediately after I had read or heard them. In fact the attempt to remember what the writer or speaker said would have deprived me of most of the benefit of the exposition, at least so far as it was on a topic on which I had already some knowledge. Even as a student I soon gave up all attempts to take notes of lectures – as soon as I tried I ceased to understand. My gain from hearing or reading what other people thought was that it changed, as it were, the colours of my own concepts. What I heard or read did not enable me to reproduce their thought but altered my

² This may sound a curious confession from a university teacher who for some forty years regularly lectured on the history of economic thought and enjoyed so doing. I was indeed always greatly interested in the works of earlier students, and learnt a great deal from them. And somehow I enjoyed reconstructing their lives and personalities, although I had no illusions that this in any way explained their scientific beliefs. I believe I also gave in my lectures a fairly adequate picture of their influence on the development of economics by discussing their effect on others. But what I told my students was essentially what I had learnt from those writers and not what they chiefly thought, which may have been something quite different.

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thought. I would not retain their ideas or concepts but modify the relations between my own.

The result of this manner of absorbing ideas is best described by comparing it to the somewhat blurred outlines of a composite photograph: that is, the results of superimposing prints of different faces which at one time were popular as a means of bringing out the common features of a type or a race. There is nothing very precise about such a picture of the world. But it provides a map or a framework in which one has to discover one's path rather than being able to follow a rigidly defined established one. What my sources give me are not definite pieces of knowledge which I can put together, but some modification of an already existing structure inside of which I have to find a way by observing all sorts of warning posts.

Alfred North Whitehead is quoted as saying that 'muddleheadedness is a condition precedent to independent thought'.³ That is certainly my experience. It was because I did not remember the answers that to others may have been obvious that I was often forced to think out a solution to a problem which did not exist for those who had a more orderly mind. That the existence of this sort of knowledge is not wholly unfamiliar is shown by the only half-joking description of an educated person as one who has forgotten a great deal. Such submerged memories may be quite important guides of judgment.

I am inclined to call minds of this type the 'puzzlers'. But I shall not mind if they are called the muddlers, since they certainly will often give this impression if they talk about a subject before they have painfully worked through to some degree of clarity.

Their constant difficulties, which in rare instances may be rewarded by a new insight, are due to the fact that they cannot avail themselves of the established verbal formulae or arguments which lead others smoothly and quickly to the result. But being forced to find their own way of expressing an accepted idea, they sometimes discover that the conventional formula conceals gaps or unjustified tacit presuppositions. They will be forced explicitly to answer questions which had been long effectively evaded by a plausible but ambiguous turn of phrase of an implicit but illegitimate assumption.

People whose minds work that way seem clearly to rely in some

3 I did not know A. N. Whitehead personally, but from my impression of Bertrand Russell I sometimes wonder whether the two famous co-authors were not another pair of thinkers who well illustrate the contrast under discussion.

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measure on a process of wordless thought, something the existence of which is occasionally denied but which at least bilingual persons seem to me often to possess. To 'see' certain connections distinctly does not yet mean for them that they know how to describe them in words. Even after long endeavour to find the right form of words they may still be acutely aware that the expression adopted does not fully convey what they really mean. They also show another somewhat curious feature which I believe is not rare but which I have never seen described: that many of their particular ideas in different fields may spring from some single more general conception of which they are themselves not aware but which, like the similarity of their approach to the separate issues, they may much later discover with surprise.

Since I wrote the preceding sections I have been struck by a further observation that certainly those of my close friends in my subject whom I regard as eminently 'masters of their subject', and by watching whom I have largely formed these ideas, seem also to be particularly susceptible to the opinions dominant in their environment and the intellectual fashions of their time generally. This is perhaps inevitable in persons who strive to command all the relevant knowledge of their time and who usually are inclined to believe that if an opinion is widely held there must be something in it, while the 'muddleheads' are much more apt stubbornly and undisturbed to go on in their own way. I do not know what significance this may have, except, perhaps, merely that the second type rarely takes the trouble carefully to study views which do not fit into their scheme of thought.

If there really are two such different types of mind who both have their contributions to make to the growth of knowledge, it may well mean that our present system of selecting those to be admitted to the universities may exclude some who might make great contributions. There are of course also other reasons which make one feel doubtful about the principle that all those, and only those, who can pass certain examinations should have a claim to a university education. The number of great scientists who were bad pupils at school and might not have passed such a test is large – and the proportion of the children who were at school very good at all subjects and later became intellectually eminent comparatively small. It seems to me also clear that the application of the now accepted principle is, in fact, lowering the proportion of the students who study because of a passionate interest in their subject.

At any rate, while I have serious doubts whether we ought to

increase further the number of those who acquire a claim to a university education by passing certain examinations. I feel strongly that there ought to be a second way where the intensity of the desire for the acquisition of scientific knowledge counts decisively. This means that it should be possible to acquire this right by some sacrifice of one's own. I readily admit that there is little relation between the strength of this wish and the capacity to pay for its satisfaction. Nor is the possibility of financing the study by current earnings from other work an adequate solution – certainly not in the demanding experimental subjects. In professional schools like law or medicine, loans to be repaid from later earnings may solve the financial problem. Yet this hardly helps in the selection of those to be enabled to devote themselves to theoretical work.

There are sacrifices, however, which are in everybody's power and which might be deemed to give a claim to the opportunity to devote oneself for a time wholly to the study of a chosen subject. If this privilege could be earned by pledging oneself for a number of years to an austere life of semi-monastic character, denying oneself many of the pleasures and amusements which at our present level of wealth youth often takes for granted, it would truly be by an effort of one's own and not by somebody else's judgment of his capacity that the passionate interest in a subject would come to count; a chance would thus be given to those whose talent will show itself only after they can immerse themselves in their special subject.

What I envisage is an arrangement by which those who chose this course would have such essentials as housing, simple food, and an ample credit for books and the like provided for them, but would have to pledge themselves to live beyond this on a very restricted budget. It seems to me that the readiness to give up for a few years some of the usual pleasures of the young is a better indication of the probability of an individual profiting from a higher education than the success in examinations in a variety of school subjects. I should also not be surprised if those who earned their right to study by such a personal sacrifice would be more respected by their fellows than those who had acquired it by passing examinations. It is probably still true and recognised that most great achievements as well as high esteem are due to a self-discipline which puts a single-minded pursuit of a self-chosen goal above most other pleasures – a sacrifice of many other human values which many of the great scientists had to bring at the most productive stage of their careers.

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To be sure, even with such a system admission would require some proof of competence in the chosen field and recurrent evidence of progress in the course of the study. I would also hold up to those who, for some four years or so, stand the course with faithful observance of the special discipline, and who then show great ability, the prospect of an ample graduate scholarship with complete freedom. Even if a large proportion of those who started on this scheme fell by the wayside and either did not complete the course or showed no more than average performance, I believe such an institution would enable us to find and develop talents which without it may be lost. Indeed, it seems to me that the type that would be attracted thereby should constitute an important ingredient of any scholarly community – and a safeguard against the good examinees establishing a reign of sacred formulae under which all minds move in the accustomed grooves.

CHAPTER FIVE

*The Atavism of Social Justice**

I

To discover the meaning of what is called 'social justice' has been one of my chief preoccupations for more than 10 years. I have failed in this endeavour – or, rather, have reached the conclusion that, with reference to a society of free men, the phrase has no meaning whatever. The search for the reason why the word has nevertheless for something like a century dominated political discussion, and has everywhere been successfully used to advance claims of particular groups for a larger share in the good things of life, remains, however, a very interesting one. It is this question with which I shall here chiefly concern myself.

But I must at first briefly explain, as I attempt to demonstrate at length in volume 2 of my *Law, Legislation and Liberty*, about to be published, why I have come to regard 'social justice' as nothing more than an empty formula, conventionally used to assert that a particular claim is justified without giving any reason. Indeed that volume, which bears the sub-title *The Mirage of Social Justice*, is mainly intended to convince intellectuals that the concept of 'social justice', which they are so fond of using, is intellectually disreputable. Some of course have already tumbled to this; but with the unfortunate result that, since 'social' justice is the only kind of justice they have ever thought of, they have been led to the conclusion that all uses of the term justice have no meaningful content. I have therefore been forced to show in the same book that rules of just individual conduct are as indispensable to the preservation of a peaceful society of free men as endeavours to realise 'social' justice are incompatible with it.

* The 9th R. C. Mills Memorial Lecture delivered at the University of Sydney on 6 October 1976.

The term 'social justice' is today generally used as a synonym of what used to be called 'distributive justice'. The latter term perhaps gives a somewhat better idea of what can be meant by it, and at the same time shows why it can have no application to the results of a market economy: there can be no distributive justice where no one distributes. Justice has meaning only as a rule of human conduct, and no conceivable rules for the conduct of individuals supplying each other with goods and services in a market economy would produce a distribution which could be meaningfully described as just or unjust. Individuals might conduct themselves as justly as possible, but as the results for separate individuals would be neither intended nor foreseeable by others, the resulting state of affairs could neither be called just nor unjust.

The complete emptiness of the phrase 'social justice' shows itself in the fact that no agreement exists about what social justice requires in particular instances; also that there is no known test by which to decide who is right if people differ, and that no preconceived scheme of distribution could be effectively devised in a society whose individuals are free, in the sense of being allowed to use their own knowledge for their own purposes. Indeed, individual moral responsibility for one's actions is incompatible with the realisation of any such desired overall pattern of distribution.

A little inquiry shows that, though a great many people are dissatisfied with the existing pattern of distribution, none of them has really any clear idea of what pattern he would regard as just. All that we find are intuitive assessments of individual cases as unjust. No one has yet found even a single general rule from which we could derive what is 'socially just' in all particular instances that would fall under it – except the rule of 'equal pay for equal work'. Free competition, precluding all that regard for merit or need and the like, on which demands for social justice are based, tends to enforce the equal pay rule.

2

The reason why most people continue firmly to believe in 'social justice', even after they discover that they do not really know what the phrase means, is that they think if almost everyone else believes in it, there must be something in the phrase. The ground for this almost universal acceptance of a belief, the significance of which people do not understand, is that we have all inherited from an

earlier different type of society, in which man existed very much longer than in the present one, some now deeply ingrained instincts which are inapplicable to our present civilisation. In fact, man emerged from primitive society when in certain conditions increasing numbers succeeded by disregarding those very principles which had held the old groups together.

We must not forget that before the last 10,000 years, during which man has developed agriculture, towns and ultimately the 'Great Society', he existed for at least a hundred times as long in small food-sharing hunting bands of 50 or so, with a strict order of dominance within the defended common territory of the band. The needs of this ancient primitive kind of society determined much of the moral feelings which still govern us, and which we approve in others. It was a grouping in which, at least for all males, the common pursuit of a perceived physical common object under the direction of the alpha male was as much a condition of its continued existence as the assignment of different shares in the prey to the different members according to their importance for the survival of the band. It is more than probable that many of the moral feelings then acquired have not merely been culturally transmitted by teaching or imitation, but have become innate or genetically determined.

But not all that is natural to us in this sense is therefore necessarily in different circumstances good or beneficial for the propagation of the species. In its primitive form the little band indeed did possess what is still attractive to so many people: a unitary purpose, or a common hierarchy of ends, and a deliberate sharing of means according to a common view of individual merits. These foundations of its coherence, however, also imposed limits on the possible development of this form of society. The events to which the group could adapt itself, and the opportunities it could take advantage of, were only those of which its members were directly aware. Even worse, the individual could do little of which others did not approve. It is a delusion to think of the individual in primitive society as free. There was no natural liberty for a social animal, while freedom is an artifact of civilisation. The individual had in the group no recognised domain of independent action; even the head of the band could expect obedience, support and understanding of his signals only for conventional activities. So long as each must serve that common order of rank for all needs, which present-day socialists dream of, there can be no free experimentation by the individual.

The great advance which made possible the development of civilisation and ultimately of the Open Society was the gradual substitution of abstract rules of conduct for specific obligatory ends, and with it the playing of a game for acting in concert under common indicators, thus fostering a spontaneous order. The great gain attained by this was that it made possible a procedure through which all relevant information widely dispersed was made available to ever-increasing numbers of men in the form of the symbols which we call market prices. But it also meant that the incidence of the results on different persons and groups no longer satisfied the age-old instincts.

It has been suggested more than once that the theory explaining the working of the market be called *catalactics* from the classical Greek word for bartering or exchanging – *katalattein*. I have fallen somewhat in love with this word since discovering that in ancient Greek, in addition to ‘exchanging’, it also meant ‘to admit into the community’ and ‘to change from enemy into friend’. I have therefore proposed that we call the game of the market, by which we can induce the stranger to welcome and serve us, the ‘game of *catalaxy*’.

The market process indeed corresponds fully to the definition of a game which we find in *The Oxford English Dictionary*. It is ‘a contest played according to rules and decided by superior skill, strength or good fortune’. It is in this respect both a game of skill as well as a game of chance. Above all, it is a game which serves to elicit from each player the highest worthwhile contribution to the common pool from which each will win an uncertain share.

The game was probably started by men who had left the shelter and obligations of their own tribe to gain from serving the needs of others they did not know personally. When the early neolithic traders took boatloads of flint axes from Britain across the Channel to barter them against amber and probably also, even then, jars of wine, their aim was no longer to serve the needs of known people, but to make the largest gain. Precisely because they were interested only in who would offer the best price for their products, they reached persons wholly unknown to them, whose standard of life they thereby enhanced much more than they could have that of their neighbours by handing the axes to those who no doubt could also have made good use of them.

As the abstract signal-price thus took the place of the needs of known fellows as the goal towards which men's efforts were directed, entirely new possibilities for the utilisation of resources opened up – but this also required wholly different moral attitudes to encourage their exploitation. The change occurred largely at the new urban centres of trade and handicrafts, which grew up at ports or the cross-roads of trade routes, where men who had escaped from the discipline of tribal morals established commercial communities and gradually developed the new rules of the game of catallaxy.

The necessity to be brief forces me here somewhat to over-simplify and to employ familiar terms where they are not quite appropriate. When I pass from the morals of the hunting band in which man spent most of his history, to the morals which made possible the market order of the open society, I am jumping over a long intermediate stage, much shorter than man's life in the small band, but still of much greater length than the urban and commercial society has enjoyed yet, and important because from it date those codifications of ethics which became embodied in the teaching of the monotheistic religions. It is the period of man's life in tribal society. In many ways it represents a transitional stage between the concrete order of the primitive face-to-face society, in which all the members knew each other and served common particular ends, and the open and abstract society, in which an order results from individuals observing the same abstract rules of the game while using their own knowledge in the pursuit of their own ends.

While our emotions are still governed by the instincts appropriate to the success of the small hunting band, our verbal tradition is dominated by duties to the 'neighbour', the fellow member of the tribe, and still regarding the alien largely as beyond the pale of moral obligation.

In a society in which individual aims were necessarily different, based on specialised knowledge, and efforts came to be directed towards future exchange of products with yet unknown partners, common rules of conduct increasingly took the place of particular common ends as the foundations of social order and peace. The interaction of individuals became a game, because what was required from each individual was observation of the rules, not concern for a particular result, other than to win support for himself

and his family. The rules which gradually developed, because they made this game most effective, were essentially those of the law of property and contract. These rules in turn made possible the progressive division of labour, and that mutual adjustment of independent efforts, which a functioning division of labour demands.

5

The full significance of this division of labour is often not appreciated, because most people think of it – partly because of the classical illustration given by Adam Smith – as a designed intra-mural arrangement in which different individuals contribute the successive steps in a planned process for shaping certain products. In fact, however, co-ordination by the market of the endeavours of different enterprises in supplying the raw materials, tools and semi-finished products which the turning out of the final commodity requires, is probably much more important than the organised collaboration of numerous specialist workers.

It is in a great measure this inter-firm division of labour, or specialisation, on which the achievement of the competitive market depends, and which that market makes possible. Prices the producer finds on the market at once tell him what to produce and what means to use in producing it. From such market signals he knows that he can expect to sell at prices covering his outlays, and that he will not use up more resources than are necessary for the purpose. His selfish striving for gain makes him do, and enables him to do, precisely what he ought to do in order to improve the chances of any member of his society, taken at random, as much as possible – *but only if* the prices he can get are determined solely by market forces and not by the coercive powers of government. Only prices determined on the free market will bring it about that demand equals supply. But not only this. Free market prices also ensure that all of a society's dispersed knowledge will be taken into account and used.

The game of the market led to the growth and prosperity of communities who played it because it improved the chances for all. This was made possible because remuneration for the services of individuals depended on objective facts, all of which no one could know, and not on someone's opinions about what they ought to have. But it also meant that while skill and industry would improve each individual's chances, they could not guarantee him a specified

income; and that the impersonal process which used all that dispersed knowledge set the signals of prices so as to tell people what to do, but without regard to needs or merits. Yet the ordering and productivity enhancing function of prices, and particularly the prices of services, depends on their informing people where they will find their most effective place in the overall pattern of activities – the place in which they are likely to make the greatest contribution to aggregate output. If, therefore, we regard *that* rule of remuneration as just which contributes as much as possible to increasing the chances of any member of the community picked out at random, we ought to regard the remunerations determined by a free market as the just ones.

6

But they are inevitably very different from the relative remunerations which assisted the organisation of the different type of society in which our species lived so much longer, and which therefore still governs the feelings which guide us. This point has become exceedingly important since prices ceased to be accepted as due to unknown circumstances, and governments came to believe they could determine prices with beneficial effects. When governments started to falsify the market price signals, whose appropriateness they had no means of judging (governments as little as anyone else possessing all the information precipitated in prices), in the hope of thereby giving benefits to groups claimed to be particularly deserving, things inevitably started to go wrong. Not only the efficient use of resources, but, what is worse, also the prospects of being able to buy or sell as expected through demand equalling supply were thereby greatly diminished.

It may be difficult to understand, but I believe there can be no doubt about it, that we are led to utilise more relevant information when our remuneration is made to depend indirectly on circumstances we do not know. It is thus that, in the language of modern cybernetics, the feedback mechanism secures the maintenance of a self-generating order. It was this which Adam Smith saw and described as the operation of the 'invisible hand' – to be ridiculed for 200 years by uncomprehending scoffers. It is indeed *because* the game of catallaxy disregards human conceptions of what is due to each, and rewards according to success in playing the game under the same formal rules, that it produces a more efficient allocation of

resources than any design could achieve. I feel that in any game that is played because it improves the prospects of all beyond those which we know how to provide by any other arrangements, the result must be accepted as fair, so long as all obey the same rules and no one cheats. If they accept their winnings from the game, it is cheating for individuals or groups to invoke the powers of government to divert the flow of good things in their favour – whatever we may do outside this game of the market to provide a decent minimum for those for whom the game did not supply it. It is not a valid objection to such a game, the outcome of which depends partly on skill and particular individual circumstances and partly on pure chance, that the initial prospects for different individuals, although they are all improved by playing that game, are very far from being the same. The answer to such an objection is precisely that one of the purposes of the game is to make the fullest possible use of the inevitably different skills, knowledge and environment of different individuals. Among the greatest assets which a society can use in this manner for increasing the pool from which the earnings of individuals are drawn, are the different moral, intellectual and material gifts parents can pass on to their children – and often will acquire, create or preserve only in order to be able to pass them on to their children.

7

The result of this game of catallaxy, therefore, will necessarily be that many have much more than their fellows think they deserve, and even more will have much less than their fellows think they ought to have. It is not surprising that many people should wish to correct this by some authoritative act of redistribution. The trouble is that the aggregate product which they think is available for distribution exists only *because* returns for the different efforts are held out by the market with little regard to deserts or needs, and are needed to attract the owners of particular information, material means and personal skills to the points where at each moment they can make the greatest contribution. Those who prefer the quiet of an assured contractual income to the necessity of taking risks to exploit ever-changing opportunities feel at a disadvantage compared with possessors of large incomes, which result from continual redispotion of resources.

High actual gains of the successful ones, whether this success is

deserved or accidental, is an essential element for guiding resources to where they will make the largest contribution to the pool from which all draw their share. We should not have as much to share if *that* income of an individual were not treated as *just*, the prospects of which induced him to make the largest contribution to the pool. Incredibly high incomes may thus sometimes be just. What is more important, scope for achieving such incomes may be the necessary condition for the less enterprising, lucky, or clever to get the regular income on which they count.

The inequality, which so many people resent, however, has not only been the underlying condition for producing the relatively high incomes which most people in the West now enjoy. Some people seem to believe that a lowering of this general level of incomes – or at least a slowing down of its rate of increase – would not be too high a price for what they feel would be a juster distribution. But there is an even greater obstacle to such ambitions today. As a result of playing the game of catallaxy, which pays so little attention to justice but does so much to increase output, the population of the world has been able to increase so much, without the income of most people increasing very much, that we can maintain it, and the further increases in population which are irrevocably on the way, only if we make the fullest possible use of that game which elicits the highest contributions to productivity.

8

If people in general do not appreciate what they owe to catallaxy and how far they are even dependent on it for their very existence, and if they often bitterly resent what they regard as its injustice, this is so because they have never designed it and therefore do not understand it. The game rests on a method of providing benefits for others in which the individual will accomplish most if, within the conventional rules, he pursues solely his own interests – which need not be selfish in the ordinary sense of the word, but are in any case his own.

The moral attitude which this order demands not only of the entrepreneur but of all those, curiously called 'self-employed', who have constantly to choose the directions of their efforts, if they are to confer the greatest benefit on their fellows, is that they compete honestly according to the rules of the game, guided only by the abstract signals of prices and giving no preferences because of their sympathies or views on the merits or needs of those with whom they

deal. It would mean not merely a personal loss, but a failure in their duty to the public, to employ a less efficient instead of a more efficient person, to spare an incompetent competitor, or to favour particular users of their product.

The gradually spreading new liberal morals, which the Open or Great Society demanded, required above all that the same rules of conduct should apply to one's relation to all other members of society – except for natural ties to the members of one's family. This extension of old moral rules to wider circles, most people, and particularly the intellectuals, welcome as moral progress. But they apparently did not realise, and violently resented when they discovered it, that the equality of rules applicable to one's relationship to all other men necessarily implied not only that new obligations were extended to people who formerly had no such claims, but also that old obligations which were recognised to some people but could not be extended to all others had to disappear.

It was this unavoidable attenuation of the content of our obligations, which necessarily accompanied their extension, that people with strongly ingrained moral emotions resented. Yet these are kinds of obligations which are essential to the cohesion of the small group but which are irreconcilable with the order, the productivity, and the peace of a great society of free men. They are all those demands which under the name of 'social justice' assert a moral claim on government that it give us what it can take by force from those who in the game of catallaxy have been more successful than we have been. Such an artificial alteration of the relative attractiveness of the different directions of productive efforts can only be counter-productive.

If expected remunerations no longer tell people where their endeavours will make the greatest contribution to the total product, an efficient use of resources becomes impossible. Where the size of the social product, and no longer their contributions to it, gives individuals and groups a moral claim to a certain share of that product, the claims of what deserve really to be described as 'free riders' become an unbearable drag on the economy.

impossible thereby to improve their position, because tribal customs demand that they share the products of their greater industry, skill or luck with all their kin. An increased income of such a man would merely mean that he had to share it with an ever-increasing number of claimants. He can, therefore, never rise substantially above the average level of his tribe.

The chief adverse effect of 'social justice' in our society is that it prevents individuals from achieving what they could achieve – through the means for further investment being taken from them. It is also the application of an incongruous principle to a civilisation whose productivity is high, *because* incomes are very unequally divided and thereby the use of scarce resources is directed and limited to where they bring the highest return. Thanks to this unequal distribution the poor get in a competitive market economy more than they would get in a centrally directed system.

All this is the outcome of the, as yet merely imperfect, victory of the obligatory abstract rule of individual conduct over the common particular end as the method of social co-ordination – the development which has made both the open society and individual freedom possible, but which the socialists now want to reverse. Socialists have the support of inherited instincts, while maintenance of the new wealth which creates the new ambitions requires an acquired discipline which the non-domesticated barbarians in our midst, who call themselves 'alienated', refuse to accept although they still claim all its benefits.

10

Let me, before I conclude, briefly meet an objection which is bound to be raised because it rests on a very widespread misunderstanding. My argument, that in a process of cultural selection we have built better than we understood, and that what we call our intelligence has been shaped concurrently with our institutions by a process of trial and error, is certain to be met by an outcry of 'social Darwinism'. But such a cheap way of disposing of my argument by labelling it would rest on an error. It is true that during the latter part of the last century some social scientists, under the influence of Darwin, placed an excessive stress on the importance of natural selection of the most able individuals in free competition. I do not wish to underrate the importance of this, but it is not the main benefit we derive from competitive selection. This is the

competitive selection of cultural institutions, for the discovery of which we did not need Darwin, but the growing understanding of which in fields like law and language rather helped Darwin to his biological theories. My problem is not genetic evolution of innate qualities, but cultural evolution through learning – which indeed leads sometimes to conflicts with near-animal natural instincts. Nevertheless, it is still true that civilisation grew not by the prevailing of that which man thought would be most successful, but by the growth of that which turned out to be so, and which, precisely because he did not understand it, led man beyond what he could ever have conceived.

PART TWO

Politics

CHAPTER SIX

*The Confusion of Language in Political Thought**

Homo non intelligendo fit omnia.
G. Vico

INTRODUCTION

Modern civilisation has given man undreamt of powers largely because, without understanding it, he has developed methods of utilising more knowledge and resources than any one mind is aware of. The fundamental condition from which any intelligent discussion of the order of all social activities should start is the constitutional and irremediable ignorance both of the acting persons and of the scientist studying this order, of the multiplicity of particular, concrete facts which enter this order of human activities because they are known to *some* of its members. As the motto above expresses it, 'man has become all he is without understanding what happened'.¹ This insight should not be a cause of shame but a source of pride in having discovered a method that enables us to overcome the limitations of individual knowledge. And it is an incentive deliberately to cultivate institutions which have opened up those possibilities.

The great achievement of the eighteenth-century social philosophers was to replace the naïve constructivistic rationalism of earlier periods,²

* A lecture originally delivered in 1967 in German to the Walter Eucken Institute at Freiburg im Breisgau, and published in 1968 as an Occasional Paper by the Institute of Economic Affairs in London.

¹ The passage from Gianbattista Vico used as a motto is taken from *Opere*, ed. G. Ferrari, 2nd ed. Milan, 1854, vol. V, p. 183.

² Cf. my *Studies in Philosophy, Politics and Economics*, London and Chicago, 1967, especially chapters 4, 5 and 6, as well as my lecture 'Dr Bernard Mandeville', reprinted as chapter 15 of this book.

which interpreted all institutions as the products of deliberate design for a foreseeable purpose, by a critical and evolutionary rationalism that examined the conditions and limitations of the effective use of conscious reason.

We are still very far, however, from making full use of the possibilities which those insights open to us, largely because our thinking is governed by language which reflects an earlier mode of thought. The important problems are in large measure obscured by the use of words which imply anthropomorphic or personalised explanations of social institutions. These explanations interpret the general rules which guide action directed at particular purposes. In practice such institutions are successful adaptations to the irremediable limitations of our knowledge, adaptations which have prevailed over alternative forms of order because they proved more effective methods for dealing with that incomplete, dispersed knowledge which is man's unalterable lot.

The extent to which serious discussion has been vitiated by the ambiguity of some of the key terms, which for lack of more precise ones we have constantly to use, has been vividly brought home to me in the course of a still incomplete investigation of the relations between law, legislation, and liberty on which I have been engaged for some time. In an endeavour to achieve clarity I have been driven to introduce sharp distinctions for which current usage has no accepted or readily intelligible terms. The purpose of the following sketch is to demonstrate the importance of these distinctions which I found essential and to suggest terms which should help us to avoid the prevailing confusion.

I

COSMOS AND TAXIS

The achievement of human purposes is possible only because we recognise the world we live in as orderly. This order manifests itself in our ability to learn, from the (spatial or temporal) parts of the world we know, rules which enable us to form expectations about other parts. And we anticipate that these rules stand a good chance of being borne out by events. Without the knowledge of such an order of the world in which we live, purposive action would be impossible.

This applies as much to the social as to the physical environment.

But while the order of the physical environment is given to us independently of human will, the order of our social environment is partly, but only partly, the result of human design. The temptation to regard it *all* as the intended product of human action is one of the main sources of error. The insight that *not all order that results from the interplay of human actions is the result of design* is indeed the beginning of social theory. Yet the anthropomorphic connotations of the term 'order' are apt to conceal the fundamental truth that all deliberate efforts to bring about a social order by arrangement or organisation (i.e. by assigning to particular elements specified functions or tasks) take place within a more comprehensive spontaneous order which is not the result of such design.

While we have the terms 'arrangement' or 'organisation' to describe a *made* order, we have no single distinctive word to describe an order which has formed *spontaneously*. The ancient Greeks were more fortunate in this respect. An arrangement produced by man deliberately putting the elements in their place or assigning them distinctive tasks they called *taxis*, while an order which existed or formed itself independent of any human will directed to that end they called *cosmos*. Though they generally confined the latter term to the order of nature, it seems equally appropriate for any spontaneous social order and has often, though never systematically, been used for that purpose.³ The advantage of possessing an unambiguous term to distinguish this kind of order from a made order should outweigh the hesitation we may feel about endowing a social order which we often do not like with a name which conveys the sense of admiration and awe with which man regards the *cosmos* of nature.

The same is in some measure true of the term 'order' itself. Though one of the oldest terms of political theory, it has been somewhat out of fashion for some time. But it is an indispensable term which, on the definition we have given it – a condition of affairs in which we can successfully form expectations and hypotheses about the future – refers to objective facts and not to values. Indeed, the first important difference between a spontaneous order or *cosmos* and an organisation (arrangement) or *taxis* is that, not having been

³ For example, J. A. Schumpeter, *History of Economic Analysis*, New York, 1954, p. 67, where he speaks of A. A. Cournot and H. von Thünen as the first two authors 'to visualise the general inter-dependence of all economic quantities and the necessity of representing this cosmos by a system of equations'.

deliberately made by men, a *cosmos* has no purpose.⁴ This does not mean that its existence may not be exceedingly serviceable in the pursuit of many purposes: the existence of such an order, not only in nature but also in society, is indeed indispensable for the pursuit of any aim. But the order of nature and aspects of the social order not being deliberately created by men, cannot properly be said to have a purpose, though both can be used by men for many different, divergent and even conflicting purposes.

While a *cosmos* or spontaneous order has thus no purpose, every *taxis* (arrangement, organisation) presupposes a particular end, and men forming such an organisation must serve the same purposes. A *cosmos* will result from regularities of the behaviour of the elements which it comprises. It is in this sense endogenous, intrinsic or, as the cyberneticians say, a 'self-regulating' or 'self-organising' system.⁵ A *taxis*, on the other hand, is determined by an agency which stands outside the order and is in the same sense exogenous or imposed. Such an external factor may induce the formation of a spontaneous order also by imposing upon the elements such regularities in their responses to the facts of their environment that a spontaneous order will form itself. Such an indirect method of securing the formation of an order possesses important advantages over the direct method: it can be applied in circumstances where what is to affect the order is not known as a whole to anyone. Nor is it necessary that the rules of behaviour within the *cosmos* be deliberately created: they, too, *may* emerge as the product of spontaneous growth or of evolution.

It is therefore important to distinguish clearly between the spontaneity of the order and the spontaneous origin of regularities in the behaviour of elements determining it. A spontaneous order may rest in part on regularities which are not spontaneous but imposed. For policy purposes there results thus the alternative whether it is

4 The only passage known to me in which the error, usually only implicit, that 'order supposes an end' is explicitly stated in these words occurs, significantly, in the writings of Jeremy Bentham, 'An essay on political tactics', first published in *Works*, ed. Bowring, vol. II, p. 399.

5 The idea of the formation of spontaneous or self-determining orders, like the connected idea of evolution, has been developed by the social sciences before it was adopted by the natural sciences and here developed as cybernetics. This is beginning to be seen by the biologists. For example, G. Hardin, *Nature and Man's Fate* (1959), Mentor edn, New York, 1961, p. 54: 'But long before [Claude Bernard, Clerk Maxwell, Walter B. Cannon or Norbert Wiener] Adam Smith had just as clearly used the idea [of cybernetics]. The "invisible hand" that regulates prices to a nicety is clearly this idea. In a free market, says Smith in effect, prices are regulated by negative feedback.'

preferable to secure the formation of an order by a strategy of indirect approach, or by directly assigning a place for each element and describing its function in detail.

Where we are concerned solely with the alternative social orders, the first important corollary of this distinction is that in a *cosmos* knowledge of the facts and purposes which will guide individual action will be those of the acting individuals, while in a *taxis* the knowledge and purposes of the organiser will determine the resulting order. The knowledge that can be utilised in such an organisation will therefore always be more limited than in a spontaneous order where all the knowledge possessed by the elements can be taken into account in forming the order without this knowledge first being transmitted to a central organiser. And while the complexity of activities which can be ordered as a *taxis* is necessarily limited to what can be known to the organiser, there is no similar limit in a spontaneous order.

While the deliberate use of spontaneous ordering forces (that is, of the rules of individual conduct which lead to the formation of a spontaneous general order) thus considerably extends the range and complexity of actions which can be integrated into a single order, it also reduces the power anyone can exercise over it without destroying the order. The regularities in the conduct of the elements in a *cosmos* determine merely its most general and abstract features. The detailed characteristics will be determined by the facts and aims which guide the actions of individual elements, though they are confined by the general rules within a certain permissible range. In consequence, the concrete content of such an order will always be unpredictable, though it may be the only method of achieving an order of wide scope. We must renounce the power of shaping its particular manifestations according to our desires. For example, the position which each individual will occupy in such an order will be largely determined by what to us must appear as accident. Though such a *cosmos* will serve all human purposes to some degree, it will not give anyone the power to determine whom it will favour more and whom less.

In an arrangement or *taxis*, on the other hand, the organiser can, within the restricted range achievable by this method, try to make the results conform to his preferences to any degree he likes. A *taxis* is necessarily designed for the achievement of particular ends or of a particular hierarchy of ends; and to the extent that the organiser can master the information about the available means, and effectively

control their use, he may be able to make the arrangement correspond to his wishes in considerable detail. Since it will be *his* purposes that will govern the arrangement, he can attach any valuation to each element of the order and place it so as to make its position correspond to what he regards as its merits.

Where it is a question of using limited resources known to the organiser in the service of a unitary hierarchy of ends, an arrangement or organisation (*taxis*) will be the more effective method. But where the task involves using knowledge dispersed among and accessible only to thousands or millions of separate individuals, the use of spontaneous ordering forces (*cosmos*) will be superior. More importantly, people who have few or no ends in common, especially people who do not know one another or one another's circumstances, will be able to form a mutually beneficial and peaceful spontaneous order by submitting to the same abstract rules, but they can form an organisation only by submitting to somebody's concrete will. To form a common *cosmos* they need agree only on abstract rules, while to form an organisation they must either agree or be made to submit to a common hierarchy of ends. Only a *cosmos* can thus constitute an open society, while a political order conceived as an organisation must remain closed or tribal.

2

NOMOS AND THESIS

Two distinct kinds of rules or norms correspond respectively to *cosmos* or *taxis* which the elements must obey in order that the corresponding kind of order be formed. Since here, too, modern European languages lack terms which express the required distinction clearly and unambiguously, and since we have come to use the word 'law' or its equivalents ambiguously for both, we shall again propose Greek terms which, at least in the classic usage of Athens in the fourth and fifth centuries BC, conveyed approximately the required distinction.⁶

6 *Thesis* must not be confused with *thesmos*, a Greek term for 'law' older than *nomos* but, at least in classical times, meaning rather the law laid down by a ruler than the impersonal rules of conduct. *Thesis*, by contrast, means the particular act of setting up an arrangement. It is significant that the ancient Greeks could never make up their minds whether the proper opposite to what was determined by nature (*physei*) was what was determined *nomō* or what was determined *thesei*. On this problem see chapter 6 of the volume of essays and the lecture mentioned in footnote 2 of this chapter.

By *nomos* we shall describe a universal rule of just conduct applying to an unknown number of future instances and equally to all persons in the objective circumstances described by the rule, irrespective of the effects which observance of the rule will produce in a particular situation. Such rules demarcate protected individual domains by enabling each person or organised group to know which means they may employ in the pursuit of their purposes, and thus to prevent conflict between the actions of the different persons. Such rules are generally described as 'abstract' and are independent of individual ends.⁷ They lead to the formation of an equally abstract and end-independent spontaneous order or *cosmos*.

In contrast, we shall use *thesis* to mean any rule which is applicable only to particular people or in the service of the ends of rulers. Though such rules may still be general to various degrees and refer to a multiplicity of particular instances, they will shade imperceptibly from rules in the usual sense to particular commands. They are the necessary instrument of running an organisation or *taxis*.

The reason why an organisation must to some extent rely on rules and not be directed by particular commands only also explains why a spontaneous order can achieve results which organisations cannot. By restricting actions of individuals only by general rules they can use information which the authority does not possess. The agencies to which the head of an organisation delegates functions can adapt to changing circumstances known only to them, and therefore the commands of authority will generally take the form of general instructions rather than of specific orders.

In two important respects, however, the rules governing the

⁷ The end-independent character of rules of just conduct has been demonstrated clearly by David Hume and most systematically developed by Immanuel Kant. Cf. D. Hume, 'An enquiry concerning the principles of Morals', in *Essays, Moral, Political, and Literary*, ed. T. H. Green and T. H. Grose, London, 1875, vol. II, p. 273: 'the benefit resulting from [the social virtues of justice and fidelity] is not the consequence of every individual single act; but arises from the whole scheme of system concurred in by the whole, or the greater part of society. General peace and order are the attendants of justice or a general abstinence from the possessions of others: But a particular regard to the particular right of one individual citizen may frequently, considered in itself, be productive of pernicious consequences. The result of the individual act is here, in many instances, directly opposite to that of the whole system of actions; and the former may be extremely hurtful, while the latter is, to the highest degree advantageous.' See also his *Treatise on Human Nature* (same ed.), vol. II, p. 318: 'It is evident, that if men were to regulate their conduct by the view of a particular *interest*, they would involve themselves in endless confusion.' For I. Kant see the excellent exposition in Mary Gregor, *Laws of Freedom*, Oxford, 1963, especially pp. 38-42 and 81.

members of an organisation will necessarily differ from rules on which a spontaneous order rests: rules for an organisation presuppose the assignment of particular tasks, targets or functions to individual people by commands; and most of the rules of an organisation will apply only to the persons charged with particular responsibilities. The rules of organisation will therefore never be universal in intent or end-independent, but always subsidiary to the commands by which roles are assigned and tasks or aims prescribed. They do not serve the spontaneous formation of an abstract order in which each individual must find his place and is able to build up a protected domain. The purpose and general outline of the organisation or arrangement must be determined by the organiser.

This distinction between the *nomoi* as universal rules of conduct and the *theseis* as rules of organisation corresponds roughly to the familiar distinction between private (including criminal) and public (constitutional and administrative) law. There exists much confusion between these two kinds of rules of law. This confusion is fostered by the terms employed and by the misleading theories of legal positivism (in turn the consequence of the predominant role of public lawyers in the development of jurisprudence). Both represent the public law as in some sense primary and as alone serving the public interest; while private law is regarded, not only as secondary and derived from the former, but also as serving not general but individual interests. The opposite, however, would be nearer the truth. Public law is the law of organisation, of the superstructure of government originally erected only to ensure the enforcement of private law. It has been truly said that public law passes, but private law persists.⁸ Whatever the changing structure of government, the basic structure of society resting on the rules of conduct persists. Government therefore owes its authority and has a claim to the allegiance of the citizens only if it maintains the foundations of that spontaneous order on which the working of society's everyday life rests.

The belief in the pre-eminence of public law is a result of the fact that it has indeed been deliberately created for particular purposes by acts of will, while private law is the result of an evolutionary process and has never been invented or designed as a whole by anybody. It was in the sphere of public law where law-making emerged while, for millennia, in the sphere of private law develop-

8 H. Huber, *Recht, Staat, und Gesellschaft*, Bern, 1954, p. 5: 'Staatsrecht vergeht, Privatrecht besteht'.

ment proceeded through a process of law-finding in which judges and jurists endeavoured to articulate the rules which had already for long periods governed action and the 'sense of justice'.

Even though we must turn to public law to discover which rules of conduct an organisation will in practice enforce, it is not necessarily the public law to which the private law owes its authority. In so far as there is a spontaneously ordered society, public law merely organises the apparatus required for the better functioning of that more comprehensive spontaneous order. It determines a sort of superstructure erected primarily to protect a pre-existing spontaneous order and to enforce the rules on which it rests.

It is instructive to remember that the conception of law in the sense of *nomos* (i.e. of an abstract rule not due to anybody's concrete will, applicable in particular cases irrespective of the consequences, a law which could be 'found' and was not made for particular foreseeable purposes) has existed and been preserved together with the ideal of individual liberty only in countries such as ancient Rome and modern Britain, in which the development of private law was based on case law and not on statute law, that is, was in the hands of judges or jurists and not of legislators. Both the conception of law as *nomos* and the ideal of individual liberty have rapidly disappeared whenever the law came to be conceived as the instrument of a government's own ends.

What is not generally understood in this connection is that, as a necessary consequence of case law procedure, law based on precedent must consist exclusively of end-independent abstract rules of conduct of universal intent which the judges and jurists attempt to distil from earlier decisions. There is no such built-in limitation to the norms established by a legislator; and he is therefore less likely to submit to such limitations as the chief task which occupies him. For a long time before alterations in the *nomos* were seriously contemplated, legislators were almost exclusively concerned with laying down the rules of organisation which regulate the apparatus of government. The traditional conception of the law as *nomos* underlies ideals like those of the Rule of Law, a Government under the Law, and the Separation of Powers. In consequence, when representative bodies, initially concerned solely with matters of government proper, such as taxation, began to be regarded also as the sources of the *nomos* (the private law, or the universal rules of conduct), this traditional concept was soon replaced by the idea that

law was whatever the will of the authorised legislator laid down on particular matters.⁹

Few insights more clearly reveal the governing tendencies of our time than understanding that the progressive permeation and displacement of private by public law is part of the process of transformation of a free, spontaneous order of society into an organisation or *taxis*. This transformation is the result of two factors which have been governing development for more than a century: on the one hand, of the increasing replacement of rules of just individual conduct (guided by 'commutative justice') by conceptions of 'social' or 'distributive' justice, and on the other hand, of the placing of the power of laying down *nomoi* (i.e. rules of just conduct) in the hands of the body charged with the direction of government. It has been largely this fusion of these two essentially different tasks in the same 'legislative' assemblies which has almost wholly destroyed the distinction between law as a universal rule of conduct and law as an instruction to government on what to do in particular instances.

The socialist aim of a just distribution of incomes must lead to such a transformation of the spontaneous order into an organisation; for only in an organisation, directed towards a common hierarchy of ends, and in which the individuals have to perform assigned duties, can the conception of a 'just' reward be given meaning. In a spontaneous order nobody 'allocates', or can even foresee, the results which changes in circumstances will produce for particular individuals or groups, and it can know justice only as rules of just individual conduct but not in results. Such a society certainly presupposes the belief that justice, in the sense of rules of just conduct, is not an empty word – but 'social justice' must remain an empty concept so long as the spontaneous order is not wholly transformed into a totalitarian organisation in which rewards are given by authority for merit earned in performing duties assigned by that authority. 'Social' or 'distributive' justice is the justice of organisation but meaningless in a spontaneous order.

9 A revealing description of the difference between the law with which the judge is concerned and the law of modern legislation is to be found in an essay by the distinguished American public lawyer P. A. Freund in R. B. Brandt (ed.), *Social Justice*, New York, 1962, p. 94: 'The judge addresses himself to standards of consistency, equivalence, predictability, the legislator to fair shares, social utility, and equitable distribution.'

A DIGRESSION ON ARTICULATED AND NON-ARTICULATED RULES

Though the distinction to be considered next is not quite on the same plane with the others examined here, it will be expedient to insert some remarks on the sense in which we are employing the term 'rule'. As we have used it it covers two distinct meanings, the difference between which is often confused with, or concealed by, the more familiar and closely related distinction between written and unwritten, or between customary and statute, law. The point to be emphasised is that a rule may effectively govern action in the sense that from knowing it we can predict how people will act, without it being known as a verbal formula to the actors. Men may 'know how' to act, and the manner of their action may be correctly described by an articulated rule, without their explicitly 'knowing that' the rule is such and such; that is, they need not be able to state the rule in words in order to be able to conform to it in their actions, or to recognise whether others have or have not done so.

There can be no doubt that, both in early society and since, many of the rules which manifest themselves in consistent judicial decisions are not known to anyone as verbal formulae, and that even the rules which are known in articulated form will often be merely imperfect efforts to express in words principles which guide action and are expressed in approval or disapproval of the actions of others. What we call the 'sense of justice' is nothing but that capacity to act in accordance with non-articulated rules, and what is described as finding or discovering justice consists in trying to express in words the yet unarticulated rules by which a particular decision is judged.

This capacity to act, and to recognise whether others act, in accordance with non-articulated rules probably always exists before attempts are made to articulate such rules; and most articulated rules are merely more or less successful attempts to put into words what has been acted upon before, and will continue to form the basis for judging the results of the application of the articulated rules.

Of course, once particular articulations of rules of conduct have become accepted, they will be the chief means of transmitting such rules; and the development of articulated and unarticulated rules will constantly interact. Yet it seems probable that no system of

articulated rules can exist or be fully understood without a background of unarticulated rules which will be drawn upon when gaps are discovered in the system of articulated rules.

This governing influence of a background of unarticulated rules explains why the application of general rules to particular instances will rarely take the form of a syllogism, since only articulated rules can serve as explicit premises of such a syllogism. Conclusions derived from the articulated rules only will not be tolerated if they conflict with the conclusions to which yet unarticulated rules lead. Equity develops by the side of the already fully articulated rules of strict law through this familiar process.

There is in this respect much less difference between the unwritten or customary law which is handed down in the form of articulated verbal rules and the written law, than there is between articulated and unarticulated rules. Much of the unwritten or customary law may already be articulated in orally transmitted verbal formulae. Yet, even when all law that can be said to be explicitly known has been articulated, this need not mean that the process of articulating the rules that in practice guide decisions has already been completed.

4

OPINION AND WILL, VALUES AND ENDS

We come now to a pair of important distinctions for which the available terms are particularly inadequate and for which even classical Greek does not provide us with readily intelligible expressions. Yet the substitution by Rousseau, Hegel, and their followers down to T. H. Green, of the term 'will' for what older authors had described as 'opinion',¹⁰ and still earlier ones contrasted as *ratio* to

¹⁰ The term 'opinion' has been most consistently used in this sense by David Hume particularly in *Essays, loc. cit.*, vol. I, p. 125: 'It may be farther said that, though men be much governed by interest, yet even interest itself, and all human affairs, are entirely governed by *opinion*'; and *ibid.*, p. 110: 'As force is always on the side of the governed, the governors have nothing to support themselves but opinion. It is therefore on opinion only that government is founded; and this maxim extends to the most despotic military government as well as the most free and popular.' It seems that this use of the term 'opinion' derives from the great political debates of the seventeenth century; this is at least suggested by the text of a broadside of 1641 with an engraving by Wenceslas Hollar (reproduced as frontispiece to vol. I of William Haller (ed.), *Tracts on Liberty in the Puritan Revolution 1638-1747*, New York, 1934) which is headed 'The world is ruled and governed by opinion'.

voluntas, was probably the most fateful terminological innovation in the history of political thinking.

This substitution of the term 'will' for 'opinion' was the product of a constructivistic rationalism¹¹ which imagined that all laws were invented for a known purpose rather than the articulation or improved formulation of practices that had prevailed because they produced a more viable order than those current in competing groups. The term 'opinion' at the same time became increasingly suspect because it was contrasted with incontrovertible knowledge of cause and effect and a growing tendency to discard all statements incapable of proof. 'Mere opinion' became one of the chief targets of rationalist critique; 'will' seemed to refer to rational purposive action, while 'opinion' came to be regarded as something typically uncertain and incapable of rational discussion.

Yet the order of an open society and all modern civilisation rests largely on opinions which have been effective in producing such an order long before people knew why they held them; and in a great measure it still rests on such beliefs. Even when people began to ask how the rules of conduct which they observed might be improved, the effects which they produced, and in the light of which they might be revised, were only dimly understood. The difficulty lay in the fact that any attempt to assess an action by its foreseeable results in the particular case is the very opposite of the function which opinions about the permissibility or non-permissibility of a kind of action play in the formation of an overall order.

Our insight into these circumstances is much obscured by the rationalistic prejudice that intelligent behaviour is governed exclusively by a knowledge of the relations between cause and effect, and by the associated belief that 'reason' manifests itself only in deductions derived from such knowledge. The only kind of rational action constructivistic rationalism recognises is action guided by such considerations as 'If I want X then I must do Y'. Human action, however, is in fact as much guided by rules which limit it to permissible kinds of actions – rules which generally preclude certain *kinds* of action irrespective of their foreseeable particular results. Our capacity to act successfully in our natural and social environment rests as much on such knowledge of what *not* to do (usually without awareness of the consequences which would follow if we did it) as on

¹¹ The Cartesian foundations of Rousseau's thinking in these respects are clearly brought out in Robert Derathé, *Le Rationalisme de J.-J. Rousseau*, Paris, 1948.

our knowledge of the particular effects of what we do. In fact, our positive knowledge serves us effectively only thanks to rules which confine our actions to the limited range within which we are able to foresee relevant consequences. It prevents us from overstepping these limits. Fear of the unknown, and avoidance of actions with unforeseeable consequences, has as important a function to perform in making our actions 'rational' in the sense of successful as positive knowledge.¹² If the term 'reason' is confined to knowledge of positive facts and excludes knowledge of the 'ought not', a large part of the rules which guide human action so as to enable the individuals or groups to persist in the environment in which they live is excluded from 'reason'. Much of the accumulated experience of the human race would fall outside what is described as 'reason' if this concept is arbitrarily confined to positive knowledge of the rules of cause and effect which govern particular events in our environment.

Before the rationalist revolution of the sixteenth and seventeenth centuries, however, the term 'reason' included and even gave first place to the knowledge of appropriate rules of conduct. When *ratio* was contrasted with *voluntas*, the former referred pre-eminently to opinion about the permissibility or non-permissibility of the kinds of conduct which *voluntas* indicated as the most obvious means of achieving a particular result.¹³ What was described as reason was thus not so much knowledge that in particular circumstances particular actions would produce particular results, but a capacity to avoid actions of a kind whose foreseeable results seemed desirable, but which were likely to lead to the destruction of the order on which the achievements of the human race rested.

We are familiar with the crucial point that the general order of society into which individual actions are integrated results not from the concrete purposes which individuals pursue but from their observing rules which limit the range of their actions. It does not really matter for the formation of this order what are the concrete

¹² The extension of knowledge is largely due to persons who transcended these limits, but of those who did many more probably perished or endangered their fellows than added to the common stock of positive knowledge.

¹³ John Locke, *Essays on the Law of Nature* (1676), ed. W. von Leyden, Oxford, 1954, p. 111: 'By reason . . . I do not think is meant here that faculty of the understanding which forms trains of thought and deduces proofs, but certain definite principles of action from which spring all virtues and whatever is necessary for the proper moulding of morals . . . reason does not so much establish and pronounce this law of nature as search for it and discover it. . . . Neither is reason so much the maker of that law as its interpreter.'

purposes pursued by the individuals; they may in many instances be wholly absurd, yet so long as the individuals pursue their purposes within the limits of those rules, they may in doing so contribute to the needs of others. It is not the purposive but the rule-governed aspect of individual actions which integrates them into the order on which civilisation rests.¹⁴

To describe the content of a rule, or of a law defining just conduct, as the expression of a *will*¹⁵ (popular or other) is thus wholly misleading. Legislators approving the text of a statute articulating a rule of conduct, or legal draftsmen deciding the wording of such a bill, will be guided by a will aiming at a particular result; but the particular form of words is not the content of such a law. *Will* always refers to particular actions serving particular ends, and the will ceases when the action is taken and the end (*terminus*) reached. But nobody can have a *will* in this sense concerning what shall happen in an unknown number of future instances.

Opinions, on the other hand, have no purpose known to those who hold them – indeed, we should rightly suspect an opinion on matters of right and wrong if we found that it was held for a purpose. Most of the beneficial opinions held by individuals are held by them without their having any known reasons for them except that they are the traditions of the society in which they have grown up. *Opinion* about what is right and wrong has therefore nothing to do with *will* in the precise sense in which it is necessary to use the term if confusion is to be avoided. We all know only too well that our will may often be in conflict with what we think is right, and this applies no less to a group of people aiming at a common concrete purpose than to any individual.

While an act of will is always determined by a particular concrete end (*terminus*) and the state of willing ceases when the end is achieved, the manner in which the end is pursued does also depend

¹⁴ The distinction between what we call here the 'purposive' and the 'rule-governed' aspects of action is probably the same as Max Weber's distinction between what he calls *zweckrational* and *wertrational*. If this is so it should, however, be clear that hardly any action could be guided by only either the one or the other kind of consideration, but that considerations of the effectiveness of the means according to the rules of cause and effect will normally be combined with considerations of their appropriateness according to the normative rules about the permissibility of the means.

¹⁵ This is a confusion against which the ancient Greeks were protected by their language, since the only word they had to express what we describe as willing, *bouleuomai*, clearly referred only to particular concrete actions. (M. Pohlenz, *Der Hellenische Mensch*, Göttingen, 1946, p. 210.)

on *dispositions* which are more or less permanent properties of the acting person.¹⁶ These dispositions are complexes of built-in rules which say either which kinds of actions will lead to a certain kind of result or which are generally to be avoided. This is not the place to enter into a discussion of the highly complex hierarchic structure of those systems of dispositions which govern our thinking and which include dispositions to change dispositions, etc., as well as those which govern all actions of a particular organism and others which are only evoked in particular circumstances.¹⁷

What is of importance is that among the dispositions which will govern the manner of action of a particular organism there will always be, in addition to dispositions to the kind of actions likely to produce particular results, many negative dispositions which rule out some kinds of action. These inhibitions against types of actions likely to be harmful to the individual or the group are probably among the most important adaptations which all organisms, and especially all individuals living in groups, must possess to make life possible. 'Taboos' are as much a necessary basis of successful existence of a social animal as positive knowledge of what kind of action will produce a given result.

If we are systematically to distinguish the *will* directed to a particular *end* (terminus) and disappearing when that particular end has been reached, from the *opinion* in the sense of a lasting or permanent disposition towards (or against) *kinds* of conduct, it will be expedient to adopt also a distinct name for the generalised aims towards which *opinions* are directed. It is suggested that among the available terms the one which corresponds to *opinion* in the same way in which *end* corresponds to *will* is the term *value*.¹⁸ It is of course not

¹⁶ Cf. chapter 3 of *Studies in Philosophy, Politics and Economics*, London and Chicago, 1967.

¹⁷ It is the basic mistake of particularistic utilitarianism to assume that rules of just conduct aim at particular concrete ends and must be judged by them. I know of no clearer expression of this fundamental error of constructivist rationalism than the statement by Hastings Rashdall (*The Theory of Good and Evil*, London, 1948, vol. I, p. 148) that 'all moral judgements are ultimately judgements as to the value of ends'. This is precisely what they are *not*. They do not refer to concrete ends but to kinds of actions or, in other words, they are judgments about means based on a presumed probability that a kind of action will produce undesirable effects, but are applicable in spite of our factual ignorance in most particular instances of whether they will do so or not.

¹⁸ Cf. W. Shakespeare, *Troilus and Cressida*, II, 2, 52:

But value dwells not in particular will;
It holds its estimate and dignity
As well wherein 'tis precious of itself
As in the prizer.

used currently only in this narrow sense; and we are all apt to describe the importance of a particular concrete end as its value. Nevertheless, at least in its plural form *values*, the term seems as closely to approach the needed meaning as any other term available.

It is therefore expedient to describe as values what may guide a person's actions throughout most of his life as distinct from the concrete ends which determine his actions at particular moments. Values in this sense, moreover, are largely culturally transmitted and will guide the action even of persons who are not consciously aware of them, while the end which most of the time will be the focus of conscious attention will normally be the result of the particular circumstances in which he finds himself at any moment. In the sense in which the term 'value' is most generally used it certainly does not refer to particular objects, persons, or events, but to attributes which many different objects, persons, or events may possess at different times and different places and which, if we endeavour to describe them, we will usually describe by stating a rule to which these objects, persons or actions conform. The importance of a value is related to the urgency of a need or of a particular end in the same manner in which the universal or abstract is related to the particular or concrete.

It should be noted that these more or less permanent dispositions which we describe as *opinions about values* are something very different from the emotions with which they are sometimes connected. Emotions, like needs, are evoked by and directed towards particular concrete objects and rapidly disappear with their disappearance. They are, unlike opinions and values, *temporary* dispositions which will guide actions with regard to particular things but not a framework which controls all actions. Like a particular end an emotion may overpower the restraints of opinion which refer not to the particular but to the abstract and general features of the situation. In this respect opinion, being abstract, is much more akin to knowledge of cause and effect and therefore deserves to be included with the latter as part of reason.

All moral problems, in the widest sense of the term, arise from a conflict between a knowledge that particular desirable results can be achieved in a given way and the rules which tell us that some *kinds* of actions are to be avoided. It is the extent of our ignorance which makes it necessary that in the use of knowledge we should be

limited and should refrain from many actions whose unpredictable consequences might place us outside the order within which alone the world is tolerably safe for us. It is only thanks to such restraints that our limited knowledge of positive facts serves us as a reliable guide in the sea of ignorance in which we move. The actions of a person who insisted on being guided only by calculable results and refused to respect opinions about what is prudent or permissible would soon prove unsuccessful and in this sense be irrational to the highest degree.

The understanding of this distinction has been badly blurred by the words at our disposal. But it is of fundamental importance because the possibility of the required agreement, and therefore of a peaceful existence of the order of an Open Society, rests on it. Our thinking and our vocabulary are still determined largely by the problems and needs of the small group concerned with specific ends known to all its members. The confusion and harm caused by the application of these conceptions to the problems of the Open Society are immense. They have been preserved particularly through the dominance in moral philosophy of a Platonic tribalism which in modern times has received strong support from the preference of people engaged in empirical research for the problems of the observable and tangible small groups and from their distaste for the intangible, more comprehensive order of the social cosmos — an order which can be only mentally reconstructed but never intuitively perceived or observed as a whole.

The possibility of an Open Society rests on its members possessing common opinions, rules and values, and its existence becomes impossible if we insist that it must possess a common will issuing commands directing its members to particular ends. The larger the groups within which we hope to live in peace, the more the common values which are enforced must be confined to abstract and general rules of conduct. The members of an Open Society have and can have in common only *opinions* on values but *not* a *will* on concrete ends. In consequence the possibility of an order of peace based on agreement, especially in a democracy, rests on coercion being confined to the enforcement of abstract rules of just conduct.

NOMOCRACY AND TELEOCRACY

The first two of the distinctions we have drawn (in sections 1 and 2) have been conveniently combined by Professor Michael Oakeshott into the two concepts of *nomocracy* and *teleocracy*,¹⁹ which need now hardly any further explanation. A *nomocracy* corresponds to our *cosmos* resting entirely on general rules or *nomoi*, while a *teleocracy* corresponds to a *taxis* (arrangement or organisation) directed towards particular ends or *teloi*. For the former the 'public good' or 'general welfare' consists solely in the preservation of that abstract and end-independent order which is secured by obedience to abstract rules of just conduct: that 'public interest which is no other than common right and justice excluding all partiality or private interest [which may be] called the empire of laws and not of men'.²⁰ For a teleocracy, on the other hand, the common good consists of the sum of the particular interests, that is, the sum of the concrete foreseeable results affecting particular people or groups. It was this latter conception which seemed more acceptable to the naïve constructivistic rationalism whose criterion of rationality is a recognisable concrete order serving known particular purposes. Such a teleocratic order, however, is incompatible with the development of an Open Society comprising numerous people having no known concrete purposes in common; and the attempt to impose it on the grown order or a nomocracy leads back from the Open Society to the Tribal Society of the small group. And since all conceptions of the 'merit' according to which individuals should be 'rewarded' must derive from concrete and particular ends towards which the common efforts of a group are directed, all efforts towards a 'distributive' or 'social' justice must lead to the replacement of the nomocracy by a teleocracy, and thus to a return from the Open to the Tribal Society.

19. So far as I know these terms have been used by Professor Oakeshott only in his oral teaching but not in any published work. For reasons which will become clear in section 7, I should have preferred to employ the term *nomarchy* rather than *nomocracy*, if the former were not too easily confused with 'monarchy'.

20. James Harrington, *The Prerogative of Popular Government* (1658), in *The Oceana and His Other Works*, ed. J. Toland, London, 1771, p. 224.

CATALLAXY AND ECONOMY

The instance in which the use of the same term for two different kinds of order has caused most confusion, and is still constantly misleading even serious thinkers, is probably that of the use of the word 'economy' for both the deliberate arrangement or organisation of resources in the service of a unitary hierarchy of ends, such as a household, an enterprise, or any other organisation including government, and the structure of many interrelated economies of this kind which we call a social, or national, or world 'economy' and often also simply an 'economy'. The ordered structure which the market produces is, however, not an organisation but a spontaneous order or cosmos, and is for this reason in many respects fundamentally different from that arrangement or organisation originally and properly called an economy.²¹

The belief, largely due to this use of the same term for both, that the market order ought to be made to behave as if it were an economy proper, and that its performance can and ought to be judged by the same criteria, has become the source of so many errors and fallacies that it seems necessary to adopt a new technical term to describe the order of the market which spontaneously forms itself. By analogy with the term *catalactics* which has often been proposed as a replacement for the term 'economics' as the name for the theory of the market order, we could describe that order itself as a *catallaxy*. Both expressions are derived from the Greek verb *katallatein* (or *katallassein*) which significantly means not only 'to exchange' but also 'to receive into the community' and 'to turn from enemy into friend'.²²

21 I now find somewhat misleading the definition of the science of economics as 'the study of the disposal of scarce means towards the realisation of given ends', which has been so effectively expounded by Lord Robbins and which I should long have defended. It seems to me appropriate only to that preliminary part of catalactics which consists in the study of what has sometimes been called 'simple economies' and to which also Aristotle's *Oeconomica* is exclusively devoted: the study of the dispositions of a single household or firm, sometimes described as the economic calculus or the pure logic of choice. (What is now called economics but had better be described as catalactics Aristotle described as *chrematistike* or the science of wealth.) The reason why Robbins' widely accepted definition now seems to me to be misleading is that the ends which a *catallaxy* serve are not *given* in their totality to anyone, that is, are not known either to any individual participant in the process or to the scientist studying it.

22 See H. G. Liddell and R. Scott, *A Greek-English Lexicon*, new ed., Oxford, 1940, s.v. *Katalláso*.

The chief aim of this neologism is to emphasise that a *catallaxy* neither ought nor can be made to serve a particular hierarchy of concrete ends, and that therefore its performance cannot be judged in terms of a sum of particular results. Yet all the aims of socialism, all attempts to enforce 'social' or 'distributive' justice, and the whole of so-called 'welfare economics', are directed towards turning the *cosmos* of the spontaneous order of the market into an arrangement or *taxis*, or the *catallaxy* into an economy proper. Apparently the belief that the catallaxy ought to be made to behave as if it were an economy seems so obvious and unquestionable to many economists that they never examine its validity. They treat it as the indisputable presupposition for rational examination of the desirability of any order, an assumption without which no judgment of the expediency or worth of alternative institutions is possible.

The belief that the efficiency of the market order can be judged only in terms of the degree of the achievement of a known hierarchy of particular ends is, however, wholly erroneous. Indeed, since these ends are in their totality not known to anybody, any discussion in such terms is necessarily empty. The discovery procedure which we call competition aims at the closest approach we can achieve by any means known to us to a somewhat more modest aim which is nevertheless highly important: namely a state of affairs in which all that is in fact produced is produced at the lowest possible costs. This means that of that particular combination of commodities and services which will be produced more will be made available than could be done by any other known means; and that in consequence, though the share in that product which the different individuals will get is left to be determined by circumstances nobody can foresee and in this sense to 'accident', each will get for the share he wins in the game (which is partly a game of skill and partly a game of chance) as large a real equivalent as can be secured. We allow the individual share to be determined partly by luck in order to make the total to be shared as large as possible.

The utilisation of the spontaneous ordering forces of the market to achieve this kind of optimum, and leaving the determination of the relative shares of the different individuals to what must appear as accident, are inseparable. Only because the market induces every individual to use his unique knowledge of particular opportunities and possibilities for his purposes can an overall order be achieved that uses in its totality the dispersed knowledge which is not accessible as

a whole to anyone. The 'maximisation' of the total product in the above sense, and its distribution by the market, cannot be separated because it is through the determination of the prices of the factors of production that the overall order of the market is brought about. If incomes are not determined by factor pricing within the output, then output cannot be maximised relative to individual preferences.

This does not preclude, of course, that *outside* the market government may use distinct means placed at its disposal for the purpose of assisting people who, for one reason or another, cannot through the market earn a minimum income. A society relying on the market order for the efficient use of its resources is likely fairly soon to reach an overall level of wealth which makes it possible for this minimum to be at an adequate level. But it should not be achieved by manipulating the spontaneous order in such a manner as to make the income earned on the market conform to some ideal of 'distributive justice'. Such efforts will reduce the total in which all can share.

7

DEMARCHY AND DEMOCRACY

This, unfortunately, does not exhaust the neologisms which seem necessary to escape the confusion which dominates current political thought. Another instance of the prevailing confusion of language is the almost universal use of the term 'democracy' for a special kind of democracy which is by no means a necessary consequence of the basic ideal originally described by that name. Indeed Aristotle questioned whether this form should even be called 'democracy'.²³ The appeal of the original ideal has been transferred to the particular form of democracy which now prevails everywhere, although this is very far from corresponding to what the original conception aimed at.

²³ Aristotle, *Politics*, IV IV 4, 1,292a, Loeb, ed. Rackham, Cambridge, Mass., and London, 1950, p. 303: 'And it would seem a reasonable criticism to say that such a democracy is not a constitution at all; for where the laws do not govern there is no constitution, as the law ought to govern all things while the magistrates control particulars, and we ought to judge this to be constitutional government; if then democracy really is one of the forms of constitution, it is manifest that an organisation of this kind, in which all things are administered by resolutions of the assembly, is not even a democracy in the proper sense, for it is impossible for a voted resolution to be a universal rule.'

Initially the term 'democracy' meant no more than that whatever ultimate power there is should be in the hands of the majority of the people or their representatives. *But it said nothing about the extent of that power.* It is often mistakenly suggested that any ultimate power must be unlimited. From the demand that the *opinion* of the majority should prevail it by no means follows that their *will* on particular matters should be unlimited. Indeed the classical theory of the separation of powers presupposes that the 'legislation' which was to be in the hands of a representative assembly should be concerned only with the passing of 'laws' (which were presumed to be distinguishable from particular commands by some intrinsic property), and that particular decisions did not become laws (in the sense of *nomoi*) merely because they emanated from the 'legislature'. Without this distinction the idea that a separation of powers involved the attribution of particular functions to distinct bodies would have been meaningless and indeed circular.²⁴

If the legislature only can make new law and can do nothing else but make law, whether a particular resolution of that body is valid law must be determinable by a recognisable property of that resolution. Its source alone does not constitute a sufficient criterion of validity.

There can be no doubt that what the great theorists of representative government and of liberal constitutionalism meant by law when they demanded a separation of powers was what we have called *nomos*. That they spoiled their aim by entrusting to the same representative assemblies also the task of making laws in another sense, namely that of the rules of organisation determining the structure and conduct of government, is another story which we cannot further pursue here. Nor can we further consider the inevitable consequence of an institutional arrangement under which a legislature which is not confined to laying down universal rules of just conduct must be driven by organised interests to use its power of 'legislation' to serve particular private ends. All we are here concerned with is that it is not necessary that the supreme authority possesses this sort of power. To limit power does *not* require that there be another power to limit it. If all power rests on *opinion*, and opinion recognises no other ultimate power than one that proves its belief in

24. Cf. above what is said under '*Nomos* and *Thesis*' on the difference between private and public law; and on what follows now also the important work by M. J. C. Vile, *Constitutionalism and the Separation of Powers*, Oxford, 1967.

the justice of its actions *by committing itself to universal rules* (the application of which to particular cases it cannot control), the supreme power loses its authority as soon as it oversteps these limits.

The supreme power thus need not be an unlimited power – it may be a power which loses the indispensable support of opinion as soon as it pronounces anything which does not possess the substantive character of *nomos* in the sense of a universal rule of just conduct. Just as the Pope in Roman Catholic doctrine is deemed to be infallible only *dum ex cathedra loquitur*, that is, so long as he lays down dogma and not in his decision of particular matters, so a legislature may be supreme only when it exercises the capacity of legislating in the strict sense of stating the valid *nomos*. And it can be so limited¹ because there exist objective tests (however difficult they may be to apply in particular instances) by which independent and impartial courts, not concerned with any particular aims of government, can decide whether what the legislature resolves has the character of a *nomos* or not, and therefore also whether it is binding law. All that is needed is a court of justice which can say whether the acts of the legislature do or do not possess certain formal properties which every valid law must possess. But this court need possess no positive power to issue any commands.

The majority of a representative assembly may thus well be the *supreme* power and yet not possess *unlimited* power. If its power is limited to acting as (to revive another Greek term which appealed both to the seventeenth-century English theorists of democracy and to John Stuart Mill)²⁵ *nomothetae*, or as the setters of the *nomos*, without power to issue particular commands, no privilege or discrimination in favour of particular groups which it attempted to make law would have the force of law. This sort of power would simply not exist because whoever exercised supreme power would have to prove the legitimacy of its acts by committing himself to universal rules.

If we want democratic determination not only of the coercive rules which bind the private citizen as well as the government, but also of the administration of the government apparatus, we need some representative body to do the latter. But this body need not and

²⁵ Cf. Philip Hunton, *A Treatise on Monarchy*, London, 1643, p. 5, and John Stuart Mill, *On Liberty and Considerations of Representative Government*, ed. R. B. McCallum, Oxford, 1946, p. 171.

should not be the *same* as that which lays down the *nomos*. It should itself be *under* the *nomos* laid down by another representative body, which would determine the limits of the power which this body could not alter. Such a governmental or directive (but in the strict sense *not* legislative) representative body would then indeed be concerned with matters of the *will* of the majority (i.e. with the achievement of particular concrete purposes) for the pursuit of which it would employ governmental powers. It would not be concerned with questions of *opinion* about what was right and wrong. It would be devoted to the satisfaction of concrete foreseeable needs by the use of separate resources set aside for the purpose.

The fathers of liberal constitutionalism were surely right when they thought that in the supreme assemblies concerned with what they regarded as legislation proper, that is, with laying down the *nomos*, those coalitions of organised interests which they called factions and which we call parties should have no place. Parties are indeed concerned with matters of concrete *will*, the satisfaction of the particular interest of the people who combine to form them, but legislation proper should express *opinion* and therefore not be placed in the hands of representatives of particular interests but in the hands of a representative sample of the prevailing opinion, persons who should be secured against all pressure of particular interests.

I have elsewhere suggested²⁶ a method of electing such a representative body that would make it independent of the organised parties though they would still remain necessary for the effective democratic conduct of government proper. It requires the election of members for long periods after which they would not be re-eligible. To make them nevertheless representative of current opinion a representation by age groups might be used: each generation electing once in their lives, say, in their fortieth year, representatives to serve for 15 years and thereafter assured to continued occupation as lay judges. The law-making assembly would then be composed of men and women between 40 and 55 (and thus probably of an average age somewhat lower than the existing representative assemblies!), elected by their contemporaries after they had opportunity to prove themselves in ordinary life, and required on election to abandon their private occupations for an honorific position for the rest of their active life.

²⁶ Most recently in the two essays reprinted as the next two chapters of this volume.

The Confusion of Language in Political Thought

Such a system of election by the contemporaries (who usually are the best judges of a person's ability) would come nearer to producing that ideal of the political theorists, a senate of wise and honourable men, than any system yet tried. The restriction of the power of such a body to legislation proper would for the first time make possible that real separation of powers which has never yet existed, and with it a true government under the law and an effective rule of law. The governmental or directive assembly, on the other hand, subject to the law laid down by the former, and concerned with the provision of particular services, might well continue to be elected on established party lines.

Such a basic change in existing constitutional arrangements presupposes that we finally shed the illusion that the safeguards men once painfully devised to prevent abuse of government power are all unnecessary once that power is placed in the hands of the majority of the people. There is no reason whatever to expect that an omnipotent democratic government will always serve the general rather than particular interests. Democratic government free to benefit particular groups is bound to be dominated by coalitions of organised interests, rather than serve the general interest in the classical sense of 'common right and justice, excluding all partial or private interests'.

It is greatly to be regretted that the word democracy should have become indissolubly connected with the conception of the unlimited power of the majority on particular matters.²⁷ But if this is so we need a new word to denote the ideal which democracy originally expressed, the ideal of a rule of the popular *opinion* on what is just, but not of a popular *will* concerning whatever concrete measures seem desirable to the coalition of organised interests governing at the moment. If democracy and limited government have become irreconcilable conceptions, we must find a new word for what once might have been called limited democracy. We want the *opinion* of the *demos* to be the ultimate authority, but not allow the naked power of the majority, its *kratos*, to do rule-less violence to individuals. The majority should then *rule* (*archein*) by 'established *standing laws*, promulgated and known to the people, and not by extemporary

27 Cf. R. Wollheim, 'A paradox in the theory of democracy', in P. Laslett and W. G. Runciman (eds), *Philosophy, Politics, and Society*, 2nd series, London, 1962, p. 72: 'the modern conception of democracy is of a form of government in which no restriction is placed on the governing body'.

decrees'.²⁸ We might perhaps describe such a political order by linking *demos* with *archein* and call *demarchy* such a limited government in which the opinion but not the particular will of the people is the highest authority. The particular scheme considered above was meant to suggest one possible way to secure such a *demarchy*.

If it is insisted upon that democracy must be unlimited government, I do indeed *not* believe in democracy, but I am and shall remain a profoundly convinced demarchist in the sense indicated. If we can by such a change of the name free ourselves from the errors that have unfortunately come to be so closely associated with the conception of democracy, we might thereby succeed in avoiding the dangers which have plagued democracy from its very beginning and have again and again led to its destruction. It is the problem which arose in the memorable episode of which Xenophon tells us, when the Athenian Assembly wanted to vote the punishment of particular individuals and²⁹

the great numbers cried out that it was monstrous if the people were to be prevented from doing whatever they wished. . . .

Then the Prytanes, stricken with fear, agreed to put the question — all of them except Socrates, the son of Sophroniskus: and he said that in no case would he act except in accordance with the law.

²⁸ John Locke, *Second Treatise on Government*, sect. 131, ed. P. Laslett, Cambridge, 1960, p. 371.

²⁹ Xenophon, *Hellenica*, I, vii, 15, Loeb ed. by C. L. Brownson, Cambridge, Mass., and London, 1918, p. 73.

CHAPTER SEVEN

*The Constitution of a Liberal State**

1. The device by which the founders of liberal constitutionalism had hoped to protect individual liberty was the separation of powers.¹ The idea behind this was that coercion should be permissible only for the enforcement of universal rules of individual conduct sanctioned by the legislature. The separation of powers as we know it has failed to achieve this end. To be meaningful this principle presupposes a conception of law which defines what is a law by intrinsic criteria and independent from the source from which it springs; only if by 'law-making' a particular kind of activity is meant do any significant consequences follow from reserving this kind of activity to a particular agency and at the same time confining the powers of this agency to this activity.

2. In fact we have come to call 'law' not a particular kind of norm or command but almost anything resolved by the agency we call legislature: the current interpretation of the separation of powers rests thus on circular reasoning and makes it a wholly empty concept: only the legislature is to pass laws and it is to possess no other powers, but whatever it resolves is law.

3. This development has resulted from the rise of democratic government interpreted as unlimited government, and from the legal philosophy congenial to it, legal positivism, which attempts to trace all law to the expressed will of a legislator. In the last resort it rests on the misconception that the ultimate 'sovereign' power must be unlimited, because, it is thought, power can be checked only by another power. This would be correct if the substantive content of the

* First published in *Il Politico*, Turin, 1967.

1 On the general subject of the separation of powers I would like to draw attention to two important recent works: M. J. C. Vile, *Constitutionalism and the Separation of Powers*, Oxford, 1967, and W. B. Gwyn, *The Meaning of Separation of Powers*, The Hague and New Orleans, 1965. See now also H. Rauch (ed.), *Zur heutigen Problematik der Gewaltenteilung*, Darmstadt, 1969.

actions of a given power were to be limited. But it is not true if the power is to be limited to a *kind* of action recognizable by objective tests.

4. The basic conception on which the classical distinction between law-making and the issue of particular commands rests is that the lawmaker had to prove his belief in the justice of his pronouncements by committing himself to their universal application to an unknown number of future instances and renouncing the power of modifying their application to particular cases. In this sense law was to rest on the *opinion* that certain kinds of actions were right or wrong and *not* on the *will* to bring about particular results. And the authority of the legislator rested on the *opinion* of the people that so long as in this manner he provided evidence of his belief in the justice of his rulings, his considered pronouncements deserved support.

5. The current misconception of democratic theory derives from the substitution by Rousseau of popular *will* for general *opinion* and the consequent conception of popular sovereignty, meaning in practice that whatever the majority decided on particular matters was to be binding law for all. There is, however, neither need for such an unlimited power, nor can its existence be reconciled with individual freedom. It is true that so far as government is entrusted with the administration of the personal and material resources placed at its disposal, its activities cannot be fully determined by general rules of just conduct. But the essence of a free society is that the private individual is not one of the resources which government administers, and that a free person can count on using a known domain of such resources on the basis of his knowledge and for his purposes. Government under the law meant to the theorists of representative government that, in directing the administrative machinery, government could not use it to coerce private persons except to make them observe the universal rules of just conduct.

6. The rise of the democratic ideal brought it about that it was desired that the representatives of the people should be able to decide not only on the laying down of rules of just conduct but also on the current activities of government in providing services by means of the resources placed at its disposal. This, however, need not have meant that both activities be placed in the hands of the same representative assembly. Democratic legislation and democratic government are probably both desirable, but to place these functions in the hands of the same body destroys the safeguard of individual liberty which the separation of powers meant to provide. Such democratic government

necessarily ceases to be government under the law in the sense in which this expression was meant, if the same assembly that directs government can make whatever laws it likes to suit the purposes of government. Legislation thus understood wholly loses that legitimation which the supreme power derives from its commitment to universal rules.

7. An assembly with unlimited powers is in a position to use that power to favour particular groups or individuals and it is an inevitable consequence that it will come to be constituted of coalitions of particular interests offering particular benefits to their supporters. The whole modern development of the rise of 'para-government', the organized interests pressuring the legislature to intervene in their favour, is a necessary and inevitable result of, and only of, giving the supreme authority unlimited power to coerce particular individuals or groups in the service of particular ends. A legislative assembly confined to the articulation of universally applicable rules of just conduct, whose effects on particular individuals or groups would be unforeseeable, would not be under such pressure (lobbying, etc., is thus the product of government intervention and must assume ever increasing dimensions as the legislature assumes power to intervene on behalf of particular groups).

8. It would take too much space here to show how this development is connected with the rise of the concept of 'social justice'. I must confine myself to refer in this respect to my paper submitted last year to the Tokyo conference of the Mont Pélérin society and to quote an instructive passage from a recent work:²

the evolution in modern times of three major procedures of government reflected the importance attached to the dominant values of the Western World – efficiency, democracy, and justice. Over the past hundred years, however, a new value emerged which could not be subordinated to these – social justice. It is the concern with social justice which above all else has disrupted the earlier triad of government functions and agencies, and has added a new dimension to modern government.

9. Historically, individual liberty has arisen only in countries in which law was not conceived to be a matter of arbitrary will of anybody but arose from the efforts of judges or juriconsults to

² See my *Studies in Philosophy, etc.*, p. 160 and M. J. C. Vile, *loc. cit.*, p. 347.

articulate as general rules the principles which governed the sense of justice. Legislation intended to alter the general rules of just conduct is a comparatively new phenomenon in history and has justly been described as 'among all inventions of man the one wrought with the gravest consequences, more far-reaching even than that of fire and gunpowder'.³ Most of what in earlier times was done by deliberate 'legislation' referred in fact to the organization and conduct of government rather than to the rules of just conduct. Law in the latter sense was long regarded as unalterably given and requiring only recurrent restoration to its pristine purity. Even early forms of representative assemblies were created principally for decisions on matters of government proper, especially taxation, rather than for the formulation of law in the sense of universal rules of just conduct.

10. It was thus natural that when it was demanded that the power of articulating general rules of just conduct be placed in the hands of representative or democratic assemblies, it was placed in the hands of assemblies already existing for the purpose of directing government. It were only the theorists, especially Locke, Montesquieu and the Fathers of the American Constitution, who allowed themselves to be deceived by the description of these assemblies as 'legislatures' into believing that they were concerned only with what these theorists then understood by law, i.e. the universal rules of just conduct to the enforcement of which they hoped to confine coercion. From the very beginning these 'legislative' assemblies were however primarily occupied with the organization and conduct of government and they have increasingly become so. A purely 'legislative' assembly in the sense in which the theorists of the separation of powers conceived it has never existed – at least not since the *nomothetai* of ancient Athens who appear to have possessed only the exclusive power of altering the rules of just conduct.

11. The separation of powers has thus never been achieved because from the beginning of the modern development of constitutional government the power of making law, in the sense presupposed by that conception, and the power of directing government were combined in the same representative assemblies. In consequence, the ultimate power of government was in no democratic country of modern times ever under the law, because it was always in the hands of a body free to make whatever law it wanted for the particular tasks it desired to undertake.

³ B. Rehfeldt, *Die Wurzeln des Rechtes*, Berlin, 1951, p. 67.

12. To achieve its aim the separation of powers in a democratic system would require two distinct representative assemblies charged with altogether different tasks and acting independently of each other. This would evidently not be achieved by two assemblies of the same composition and acting in collusion. Since the assembly which was to be truly law-giving (in the sense of the theory of the separation of powers) would have to establish rules limiting the powers of the governmental assembly which would be under the law laid down by the first, the second must not be subservient to the other, as it would be if it were composed of the representatives of the same coalitions of interests or parties as the former. In the terms used before, the law-making assembly should be concerned with *opinion* about what is right and *not* with *will* about particular objectives of government.

13. Existing democratic institutions have been shaped entirely by the needs of democratic government rather than by the needs of discovering the appropriate systems of rules of justice or law as the theory of the separation of powers understood it. For the purposes of democratic government an organized body dedicated to the realization of a particular system of concrete ends is undoubtedly necessary. Democratic *government* thus requires parties and there is therefore no reason why the governmental assembly should not be organized on party lines – with the executive committee of the majority acting as government, as is the rule in parliamentary systems.

14. On the other hand, the distrust of ‘factions’ or organized interests, so characteristic of the older theorists of representative government, is wholly justified so far as law-making, as they understood it, is concerned. Where not a sum of particular concrete interests but the true public interest is concerned, ‘which is no other than common right and justice, excluding all partiality or private interests’ and which ‘may be called the empire of laws and not of men’ (James Harrington), an assembly is wanted which represents not interests but opinion about what is right. Here we need a ‘representative sample’ of the people – and if possible men and women particularly respected for their probity and wisdom but not delegates required to look after the particular interest of their constituents.

15. Though elected by the people as representatives of opinion of what is just, the members of the law-making assembly should thus not be dependent on will and interest and certainly not be bound by

party discipline. This can be secured by electing them for long periods after which they would not be re-eligible. To make them nevertheless representative of current opinion I have suggested a system of representation by age groups: each generation electing once in their lives, say in their fortieth year, representatives to serve for 15 years and to be secured thereafter continued occupation as lay judges. The law-making assembly would thus be composed of men and women between their fortieth and fifty-fifth year (and thus of an average age probably considerably lower than in existing assemblies!), elected by their contemporaries after they had an opportunity to prove themselves in ordinary life and required to leave their business concerns for a honorific position for the rest of their lives. I imagine that such a system of election by the contemporaries, who are always the best judges of a man's ability, as a sort of prize awarded to 'the most successful member of the class', would come nearer producing the ideal of the political theorists, a senate of the wise, than any system yet tried. It would certainly for the first time make possible a real separation of powers, a government under the law and an effective rule of law.

16. The manner of operation of such a system is best seen if we consider the way in which it would apply to tax legislation. Taxation is a coercive activity and the principles on which each individual would be required to contribute to the common purse, or the manner in which a given amount to be raised would be pro-rated among the different individuals, would have to be determined by a general rule which it would be for the legislative assembly to determine. The annual amount to be spent and therefore to be raised by taxation would be a matter for the governmental assembly to decide. But in doing so it would know that every additional expenditure would have to be borne by themselves and their constituents in a manner they had no power to alter. Every attempt to shift the burden of additional expenditure to other shoulders would be precluded. I can conceive of no more wholesome restraint on politicians than this knowledge that every penny they spent would be pro-rated according to a predetermined universal scale which they could not alter.

17. Government as a service agency limited to the use of the means it could raise in this manner (or which were permanently placed at its disposal) could still provide whatever collective good the majority was willing to pay for. What it could not do would be to deflect the general stream of goods and services produced by the market for the

benefit of particular groups. Apart from contributing his share of the common expenses, determined by a uniform rule, the individual citizen would merely be held to observe those universal rules of just conduct required to delimit everybody's protected domain, but could not be required to do, or be prohibited from doing, particular things or serving particular ends.

18. If, as some maintain, democracy has now definitely come to mean unlimited power of the majority, we may have to invent a new word to describe a system of government in which, though there would be no power higher than that of the majority, even that power would be limited by the principle that it possessed coercive power only to the extent that it was prepared to commit itself to general rules. I suggest that we call such a system of government a *demarchy* – a system of government in which the *demos* has no brute power (*kratos*) but is confined to ruling (*archein*) by 'established standing laws promulgated and known to the people, and not by extemporary decrees' (John Locke) – and reminding us of the error we committed by sweeping away all the safeguards by which we had learnt effectively to hedge about constitutional *monarchy* under the illusion that once the will of the people governed there was no longer any need for the majority to prove that it regarded as just what it decided.

CHAPTER EIGHT

*Economic Freedom and Representative Government**

I

THE SEEDS OF DESTRUCTION

Thirty years ago I wrote a book¹ which, in a manner which many regarded as unduly alarmist, described the dangers that the then visible collectivist tendencies created for personal freedom. I am glad that these fears so far have not materialised, but I do not think this has proved me wrong. In the first instance I did not, as many misunderstood me, contend that if government interfered at all with economic affairs it was bound to go the whole way to a totalitarian system. I was trying to argue rather what in more homely terms is expressed by saying 'if you don't mend your principles you will go to the devil'.

In the event developments since the war, in Britain as well as in the rest of the Western world, have gone much less in the direction which the prevalent collectivist doctrines seemed to suggest was likely. Indeed, the first 20 years after the war saw a revival of a free market economy much stronger than even its most enthusiastic supporters could have hoped. Although I like to think that those who worked for this consummation in the intellectual sphere, such as Harold Wincott, to whose memory this lecture is dedicated, have contributed to it, I do not overrate what intellectual debate can achieve. At least as important were probably the experiences of

* The Fourth Wincott Memorial Lecture, delivered at the Royal Society of Arts in London on 21 October 1973, and published as Occasional Paper 39 by the Institute of Economic Affairs. As in the case of chapter 6, I am much indebted to the Editorial Director of that institute, Mr Arthur Seldon, for his careful and sympathetic editing of my text.

¹ *The Road to Serfdom*, London, 1944.

Germany, relying on a market economy, rapidly becoming the strongest economic power of Europe – and to some extent the practical efforts for a removal of the obstacles to international trade, such as GATT and perhaps in some measure the intentions if not the practice of the EEC.

The result was the Great Prosperity of the last 20 to 25 years which, I fear, will in the future appear as an event as unique as the Great Depression of the 1930s now appears to us. To me at least it seems clear that, until six or eight years ago, this prosperity was due entirely to the freeing of the spontaneous forces of the economic system and not, as in the later years, to inflation. Since this is today often forgotten I may perhaps remind you that, in the most remarkable burst of prosperity of this period, that of the German Federal Republic, the average annual rise of prices remained below 2 per cent until 1966.

I believe that even this modest rate of inflation would not have been necessary to secure the prosperity, and indeed that we should all today have better prospects of continuing prosperity if we had been content with what was achieved without inflation and had not attempted to stimulate it further by an expansionist credit policy. Instead such a policy has created a situation in which it is thought necessary to impose controls which will destroy the main foundations of the prosperity, namely the functioning market. Indeed the measures supposedly necessary to combat inflation – as if inflation were something which attacks us and not something which we create – threaten to destroy the free economy in the near future.

We find ourselves in the paradoxical situation that, after a period during which the market economy has been more successful than ever before in rapidly raising living standards in the Western world, the prospects of its continuance even for the next few years must appear slight. I have indeed never felt so pessimistic about the chances of preserving a functioning market economy as I do at this moment – and this means also of the prospects of preserving a free political order. Although the threat to free institutions now comes from a source different from that with which I was concerned 30 years ago, it has become even more acute than it was then.

That a systematically pursued incomes policy means the suspension of the price mechanism and before long the replacement of the market by a centrally directed economy seems to me beyond doubt. I cannot here discuss the ways in which we may still avoid this

course, or the chances that we may still do so. Although I regard it as at this time the chief duty of every economist to fight inflation – and to explain why a repressed inflation is even worse than an open inflation – I devote this lecture to another task. As I see it, inflation has merely speeded up the process of the destruction of the market economy which has been going on for other reasons, and brought much nearer the moment when, seeing the economic, political and moral consequences of a centrally directed economy, we shall have to think how we can re-establish a market economy on a firmer and more durable basis.

2

THE DANGER OF UNLIMITED GOVERNMENT

For some time I have been convinced that it is not only the deliberate attempts of the various kinds of collectivists to replace the market economy by a planned system, nor the consequences of the new monetary policies, which threaten to destroy the market economy: the political institutions prevailing in the Western world necessarily produce a drift in this direction which can be halted or prevented only by changing these institutions. I have belatedly come to agree with Josef Schumpeter who 30 years ago argued² that there was an irreconcilable conflict between democracy and capitalism – except that it is not democracy as such but the particular forms of democratic organisation, now regarded as the only possible forms of democracy, which will produce a progressive expansion of governmental control of economic life even if the majority of the people wish to preserve a market economy.

The reason is that it is now generally taken for granted that in a democracy the powers of the majority must be unlimited, and that a government with unlimited powers will be forced to secure the continued support of a majority, to use its unlimited powers in the service of special interests – such groups as particular trades, the inhabitants of particular regions, etc. We shall see this most clearly if we consider the situation in a community in which the mass of the people are in favour of a market order and against government direction, but, as will normally happen, most of the groups wish an exception to be made in their favour. In such conditions a political

² *Capitalism, Socialism and Democracy*, London, 1943 (Unwin University Books, no. 28, 3rd ed., 1950).

party hoping to achieve and maintain power will have little choice but to use its powers to buy the support of particular groups. They will do so not because the majority is interventionist, but because the ruling party would not retain a majority if it did not buy the support of particular groups by the promise of special benefits. This means in practice that even a statesman wholly devoted to the common interest of all the citizens will be under the constant necessity of satisfying special interests, because only thus will he be able to retain the support of a majority which he needs to achieve what is really important to him.

The root of the evil is thus the unlimited power of the legislature in modern democracies, a power which the majority will be constantly forced to use in a manner that most of its members may not desire. What we call the will of the majority is thus really an artefact of the existing institutions, and particularly of the omnipotence of the sovereign legislature, which by the mechanics of the political process will be driven to do things that most of its members do not really want, simply because there are no formal limits to its powers.

It is widely believed that this omnipotence of the representative legislature is a necessary attribute of democracy because the will of the representative assembly could be limited only by placing another will above it. Legal positivism, the most influential current theory of jurisprudence, particularly represents this sovereignty of the legislature as logically necessary. This, however, was by no means the view of the classical theorists of representative government. John Locke made it very clear that in a free state even the power of the legislative body should be limited in a definite manner, namely to the passing of laws in the specific sense of general rules of just conduct equally applicable to all citizens. That all coercion would be legitimate only if it meant the application of general rules of law in this sense became the basic principle of liberalism. For Locke, and for the later theorists of Whiggism and the separation of powers, it was not so much the source from which the laws originated as their character of general rules of just conduct equally applicable to all which justified their coercive application.

This older liberal conception of the necessary limitation of all power by requiring the legislature to commit itself to general rules has, in the course of the last century, been replaced gradually and almost imperceptibly by the altogether different though not easily distinguished conception that it was the approval of the majority

which was the only and sufficient restraint on legislation. And the older conception was not only forgotten but no longer even understood. It was thought that any substantive limitation of the legislative power was unnecessary once this power was placed in the hands of the majority, because approval by it was regarded as an adequate test of justice. In practice this majority opinion usually represents no more than the result of bargaining rather than a genuine agreement on principles. Even the concept of the arbitrariness which democratic government was supposed to prevent changed its content: its opposite was no longer the general rules equally applicable to all but the approval of a command by the majority – as if a majority might not treat a minority arbitrarily.

3

THE FUNDAMENTAL PRINCIPLE

Today it is rarely understood that the limitation of all coercion to the enforcement of general rules of just conduct was the fundamental principle of classical liberalism, or, I would almost say, its definition of liberty. This is largely a consequence of the fact that the substantive (or 'material') conception of law (as distinguished from a purely formal one) which underlies it, and which alone gives a clear meaning to such ideas as that of the separation of powers, of the rule of law or of a government under the law, had been rarely stated explicitly but merely tacitly presupposed by most of the classical writers. There are few passages in their seventeenth- and eighteenth-century writings in which they explicitly say what they mean by 'law'. Many uses of the term, however, make sense only if it is interpreted to mean exclusively general rules of just conduct and not every expression of the will of the duly authorised representative body.

Though the older conception of law survives in limited connections, it is certainly no longer generally understood, and in consequence has ceased to be an effective limit on legislation. While in the theoretical concept of the separation of powers the legislature derived its authority from the circumstance that it committed itself to general rules and was supposed to impose only general rules, there are now no limits on what a legislature may command and so claim to be 'law'. While its power was thus once supposed not to be limited

by a superior will but by a generally recognised principle, there are now no limits whatever. There is therefore also no reason why the coalitions of organised interests on which the governing majorities rest should not discriminate against any widely disliked group. Differences in wealth, education, tradition, religion, language or race may today become the cause of differential treatment on the pretext of a pretended principle of social justice or of public necessity. Once such discrimination is recognised as legitimate, all the safeguards of individual freedom of the liberal tradition are gone. If it is assumed that whatever the majority decides is just, even if what it lays down is not a general rule, but aims at affecting particular people, it would be expecting too much to believe that a sense of justice will restrain the caprice of the majority: in any group it is soon believed that what is desired by the group is just. And since the theoreticians of democracy have for over a hundred years taught the majorities that whatever they desire is just, we must not be surprised if the majorities no longer even ask whether what they decide is just. Legal positivism has powerfully contributed to this development by its contention that law is not dependent on justice but determines what is just.

Unfortunately, we have not only failed to impose upon legislatures the limitations inherent in the necessity of committing themselves to general rules. We have also charged them with tasks which they can perform only if they are not thus limited but are free to use coercion in the discriminatory manner that is required to assure benefits to particular people or groups. This they are constantly asked to do in the name of what is called social or distributive justice, a conception which has largely taken the place of the justice of individual action. It requires that not the individuals but 'society' be just in determining the share of individuals in the social product; and in order to realise any particular distribution of the social product regarded as just it is necessary that government directs individuals in what they must do.

Indeed, in a market economy in which no single person or group determines who gets what, and the shares of individuals always depend on many circumstances which nobody could have foreseen, the whole conception of social or distributive justice is empty and meaningless; and there will therefore never exist agreement on what is just in this sense. I am not sure that the concept has a definite meaning even in a centrally directed economy, or that in such a system people would ever agree on what distribution is just. I am

certain, however, that nothing has done so much to destroy the juridical safeguards of individual freedom as the striving after this mirage of social justice. An adequate treatment of the topic of this lecture would indeed presuppose a careful dissection of this ideal which almost everybody seems to believe to have a definite meaning but which proves more completely devoid of such meaning the more one thinks about it. But the main subject of this lecture is what we have to do, if we ever again get a chance, to stop those tendencies inherent in the existing political systems which drive us towards a totalitarian order.

Before I turn to this main problem, I should correct a widespread misunderstanding. The basic principle of the liberal tradition, that all the coercive action of government must be limited to the enforcement of general rules of just conduct, does not preclude government from rendering many other services for which, except for raising the necessary finance, it need not rely on coercion. It is true that in the nineteenth century a deep and not wholly unjustified distrust of government often made liberals wish to restrain government much more narrowly. But even then, of course, certain collective wants were recognised which only an agency possessing the power of taxation could satisfy. I am the last person to deny that increased wealth and the increased density of population have enlarged the number of collective needs which government can and should satisfy. Such government services are entirely compatible with liberal principles so long as,

- (1) government does not claim a monopoly and new methods of rendering services through the market (for example, in some now covered by social insurance) are not prevented;
- (2) the means are raised by taxation on uniform principles and taxation is not used as an instrument for the redistribution of income; and,
- (3) the wants satisfied are collective wants of the community as a whole and not merely collective wants of particular groups.

Not every collective want deserves to be satisfied: the desire of the small bootmakers to be protected against the competition of the factories is also a collective need of the bootmakers, but clearly not one which in a liberal economic system could be satisfied.

Nineteenth-century liberalism in general attempted to keep the growth of these service activities of government in check by entrusting

them to local rather than central government in the hope that competition between the local authorities would control their extent. I cannot consider here how far this principle had to be abandoned and mention it only as another part of the traditional liberal doctrine whose rationale is no longer understood.

I had to consider these points to make it clear that those checks on government activity with which for the rest of this lecture I shall be exclusively concerned refer only to its powers of coercion but not to the necessary services we today expect government to render to the citizens.

I hope that what I have said so far has made it clear that the task we shall have to perform if we are to re-establish and preserve a free society is in the first instance an intellectual task: it presupposes that we not only recover conceptions which we have largely lost and which must once again become generally understood, but also that we design new institutional safeguards which will prevent a repetition of the process of gradual erosion of the safeguards which the theory of liberal constitutionalism had meant to provide.

4

THE SEPARATION OF POWERS

The device to which the theorists of liberal constitutionalism had looked to guarantee individual liberty and the prevention of all arbitrariness was the separation of powers. If the legislature laid down only general rules equally applicable to all and the executive could use coercion only to enforce obedience to these general rules, personal liberty would indeed be secure. This presupposes, however, that the legislature is confined to laying down such general rules. But, instead of confining parliament to making laws in this sense, we have given it unlimited power simply by calling 'law' everything which it proclaims: a legislature is now not a body that makes laws; a law is whatever is resolved by a legislature.

This state of affairs was brought about by the loss of the old meaning of 'law' and by the desire to make government democratic by placing the direction and control of government in the hands of the legislatures, which are in consequence constantly called upon to order all sorts of specific actions – to issue commands which are called laws, although in character they are wholly different from

those laws to the production of which the theory of the separation of powers had intended to confine the legislatures.

Although the task of designing and establishing new institutions must appear difficult and almost hopeless, the task of reviving and making once more generally understood a lost concept for which we no longer have even an unambiguous name is perhaps even more difficult. It is a task which in this case has to be achieved in the face of the contrary teaching of the dominant school of jurisprudence. I will try briefly to state the essential characteristics of laws in this specific narrow sense of the term before I turn to the institutional arrangements which would secure that the task of making such laws be really separated from the task of governing.

A good way is to consider the peculiar properties which judge-made law possesses of necessity, while they belong to the products of legislatures in general only in so far as these have endeavoured to emulate judge-made law. It is no accident that this concept of law has been preserved much longer in the common law countries whereas it was rarely understood in countries which relied wholly on statute law.

This law consists essentially of what used to be known as 'lawyer's law' – which is and can be applied by courts of justice and to which the agencies of government are as much subject as are private persons. Since this judge-made law arises out of the settlement of disputes, it relates solely to the relations of acting persons towards one another and does not control an individual's actions which do not affect others. It defines the protected domains of each person with which others are prohibited from interfering. The aim is to prevent conflicts between people who do not act under central direction but on their own initiative, pursuing their own ends on the basis of their own knowledge.

These rules must thus apply in circumstances which nobody can foresee and must therefore be designed to cover an uncertain number of future instances. This determines what is commonly but not very helpfully described as their 'abstract' character, by which is meant that they are intended to apply in the same manner to all situations in which certain generic factors are present and not only to particular designated persons, groups, places, times, etc. They do not prescribe to the individuals specific tasks or ends of their actions, but they are essentially prohibitions which aim at making it possible for them so mutually to adjust their plans that each will have a good chance of

achieving his aims. The delimitations of the personal domains which achieve this purpose are of course determined chiefly by the law of property, contract, and torts, and the penal laws which protect 'life, liberty and property'.

An individual who is bound to obey only such rules of just conduct as I have called these rules of law in this narrow meaning is free in the sense that he is not legally subject to anybody's commands, that within known limits he can choose the means and ends of his activities. But where everybody is free in this sense each is thrown into a process which nobody controls and the outcome of which for each is in large measure unpredictable. Freedom and risk are thus inseparable. Nor can it be claimed that the magnitude of each individual's share of the national income, dependent on so many circumstances which nobody knows, will be just. But neither can these shares meaningfully be described as unjust. We must be content if we can prevent them from being affected by unjust actions. We can of course in a free society provide a floor below which nobody need fall, by providing outside the market for all some insurance against misfortune. There is indeed much we can do to improve the framework within which the market will operate beneficially. But we cannot in such a society make the distribution of incomes correspond to some standard of social or distributive justice, and attempts to do so are likely to destroy the market order.

But if, to preserve individual freedom, we must confine coercion to the enforcement of general rules of just conduct, how can we prevent legislatures from authorising coercion to secure particular benefits for particular groups – especially a legislature organised on party lines where the governing majority frequently will be a majority only because it promises such special benefits to some groups? The truth is of course that the so-called legislatures have *never* been confined to making laws in this narrow sense, although the theory of the separation of powers tacitly assumed that they were. And since it has come to be accepted that not only legislation but also the direction of current government activities should be in the hands of the representatives of the majority, the direction of government has become the chief task of the legislatures. This has had the effect not only of entirely obliterating the distinction between laws in the sense of general rules of just conduct and laws in the sense of specific commands, but also of organising the legislatures not in the manner most suitable for making laws in the classical sense but in the

manner required for efficient government, that is above all on party lines.

Now, I believe we are right in wanting both legislation in the old sense and current government to be conducted democratically. But it seems to me it was a fatal error, though historically probably inevitable, to entrust these two distinct tasks to the same representative assembly. This makes the distinction between legislation and government, and thereby also the observance of the principles of the rule of law and of a government under the law, practically impossible. Though it may secure that every act of government has the approval of the representative assembly, it does not protect the citizens against discretionary coercion. Indeed, a representative assembly organised in the manner necessary for efficient government, and not restrained by some general laws it cannot alter, is bound to be driven to use its powers to satisfy the demands of sectional interests.

It is no accident that most of the classical theorists of representative government and of the separation of powers disliked the party system and hoped that a division of the legislature on party lines could be avoided. They did so because they conceived of the legislatures as concerned with the making of laws in the narrow sense, and believed that there could exist on the rules of just conduct a prevalent common opinion independent of particular interests. But it cannot be denied that democratic *government* requires the support of an organised body of representatives, which we call parties, committed to a programme of action, and a similarly organised opposition which offers an alternative government.

It would seem the obvious solution of this difficulty to have two distinct representative assemblies with different tasks, one a true legislative body and the other concerned with government proper, i.e. everything except the making of laws in the narrow sense. And it is at least not inconceivable that such a system might have developed in Britain if at the time when the House of Commons with the exclusive power over money bills achieved in effect sole control of government, the House of Lords, as the supreme court of justice, had obtained the sole right to develop the law in the narrow sense. But such a development was of course not possible so long as the House of Lords represented not the people at large but a class.

On reflection, however, one realises that little would be gained by merely having two representative assemblies instead of one if they were elected and organised on the same principles and therefore also

had the same composition. They would be driven by the same circumstances which govern the decisions of modern parliaments and acting in collusion would probably produce the same sort of authorisation for whatever the government of the day wished to do. Even if we assume that the legislative chamber (as distinguished from the governmental one) were restricted by the constitution to passing laws in the narrow sense of general rules of just conduct, and this restriction were made effective through the control by a constitutional court, little would probably be achieved so long as the legislative assembly were under the same necessity of satisfying the demands of particular groups which force the hands of the governing majorities in today's parliaments.

While for the governmental assemblies we should want something more or less of the same kind as the existing parliaments, whose organisation and manner of proceeding have indeed been shaped by the needs of governing rather than the making of laws, something very different would be needed for a truly legislative assembly. We should want an assembly not concerned with the particular needs of particular groups but rather with the general permanent principles on which the activities of the community were to be ordered. Its members and its resolutions should represent not specific groups and their particular desires but the prevailing opinion on what kind of conduct was just and what kind was not. In laying down rules to be valid for long periods ahead this assembly should be 'representative of', or reproduce a sort of cross-section of, the prevailing opinions on right and wrong; its members should not be the spokesmen of particular interests, or express the 'will' of any particular section of the population on any specific measure of government. They should be men and women trusted and respected for the traits of character they had shown in the ordinary business of life, and not dependent on the approval by particular groups of electors. And they should be wholly exempt from the party discipline necessary to keep a governing team together, but evidently undesirable in the body which lays down the rules that limit the powers of government.

Such a legislative assembly could be achieved if, first, its members were elected for long periods, second, they were not eligible for re-election after the end of the period, and, third, to secure a continuous renewal of the body in accord with gradually changing opinions among the electorate, its members were not all elected at the same time but a constant fraction of their number replaced every year as

their mandate expired; or, in other words, if they were elected, for instance, for 15 years and one-fifteenth of their number replaced every year. It would further seem to me expedient to provide that at each election the representatives should be chosen by and from only one age group so that every citizen would vote only once in his life, say in his forty-fifth year, for a representative chosen from his age group.

The result would be an assembly composed of persons between their forty-fifth and their sixtieth year, elected after they had opportunity to prove their ability in ordinary life (and, incidentally, of an average age somewhat below that of contemporary parliaments). It would probably be desirable to disqualify those who had occupied positions in the governmental assembly or other party-political organisations and it would also be necessary to assure to those elected for the period after their retirement some dignified, paid and pensionable position, such as lay-judge or the like.

The advantage of an election by age groups, and at an age at which the individuals could have proved themselves in ordinary life, would be that in general a person's contemporaries are the best judges of his character and ability; and that among the relatively small numbers participating in each election the candidates would be more likely to be personally known to the voters and chosen according to the personal esteem in which they were held by the voters – especially if, as would seem likely and deserve encouragement, the anticipation of this common task led to the formation of clubs of the age groups for the discussion of public affairs.

5

ADVANTAGES OF LEGISLATIVE SEPARATION

The purpose of all this would of course be to create a legislature which was not subservient to government and did not produce whatever laws government wanted for the achievement of its momentary purposes, but rather which with the law laid down the permanent limits to the coercive powers of government – limits within which government had to move and which even the democratically elected governmental assembly could not overstep. While the latter assembly would be entirely free in determining the organisation of government, the use to be made of the means placed

at the disposal of government and the character of the services to be rendered by government, it would itself possess no coercive powers over the individual citizens. Such powers, including the power to raise by taxation the means for financing the services rendered by government, would extend only to the enforcement of the rules of just conduct laid down by the legislative assembly. Against any overstepping of these limits by government (or the governmental assembly) there would be open an appeal to a constitutional court which would be competent in the case of conflict between the legislature proper and the governmental bodies.

A further desirable effect of such an arrangement would be that the legislature would for once have enough time for its proper tasks. This is important because in modern times legislatures frequently have left the regulation of matters which might have been effected by general rules of law to administrative orders and even administrative discretion simply because they were so busy with their governmental tasks that they had neither time for nor interest in making law proper. It is also a task which requires expert knowledge which a long-serving representative might acquire but is not likely to be possessed by a busy politician anxious for results which he can show his constituents before the next election. It is a curious consequence of giving the representative assembly unlimited power that it has largely ceased to be the chief determining agent in shaping the law proper, but has left this task more and more to the bureaucracy.

I must, however, not make you impatient by pursuing further the details of this Utopia – though I must confess that I have found fascinating and instructive the exploration of the new opportunities offered by contemplating the possibility of separating the truly legislative assembly from the governmental body. You will rightly ask what the purpose of such a Utopian construction can be if by calling it thus I admit that I do not believe it can be realised in the foreseeable future. I can answer in the words of David Hume in his essay on ‘The idea of a perfect commonwealth’, that

in all cases, it must be advantageous to know what is the most perfect in the kind, that we may be able to bring any real constitution or form of government as near it as possible, by such gentle alterations and innovations as may not give too great a disturbance to society.

CHAPTER NINE

*Liberalism**

INTRODUCTION

1. *The different concepts of liberalism*

The term is now used with a variety of meanings which have little in common beyond describing an openness to new ideas, including some which are directly opposed to those which are originally designated by it during the nineteenth and the earlier parts of the twentieth centuries. What will alone be considered here is that broad stream of political ideals which during that period under the name of liberalism operated as one of the most influential intellectual forces guiding developments in western and central Europe. This movement derives, however, from two distinct sources, and the two traditions to which they gave rise, though generally mixed to various degrees, coexisted only in an uneasy partnership and must be clearly distinguished if the development of the liberal movement is to be understood.

The one tradition, much older than the name 'liberalism', traces back to classical antiquity and took its modern form during the late seventeenth and the eighteenth centuries as the political doctrines of the English Whigs. It provided the model of political institutions which most of the European nineteenth-century liberalism followed. It was the individual liberty which a 'government under the law' had secured to the citizens of Great Britain which inspired the movement for liberty in the countries of the Continent in which absolutism had destroyed most of the medieval liberties which had been largely preserved in Britain. These institutions were, however, interpreted on the Continent in the light of a philosophical tradition very different from the evolutionary conceptions predominant in

* Written in 1973 for the Italian *Enciclopedia del Novecento* where the article will appear in an Italian translation at about the same time as this book.

Britain, namely of a rationalist or constructivistic view which demanded a deliberate reconstruction of the whole of society in accordance with principles of reason. This approach derived from the new rationalist philosophy developed above all by René Descartes (but also by Thomas Hobbes in Britain) and gained its greatest influence in the eighteenth century through the philosophers of the French Enlightenment. Voltaire and J.-J. Rousseau were the two most influential figures of the intellectual movement that culminated in the French Revolution and from which the Continental or constructivistic type of liberalism derives. The core of this movement, unlike the British tradition, was not so much a definite political doctrine as a general mental attitude, a demand for an emancipation from all prejudice and all beliefs which could not be rationally justified, and for an escape from the authority of 'priests and kings'. Its best expression is probably B. de Spinoza's statement that 'he is a free man who lives according to the dictates of reason alone'.

These two strands of thought which provided the chief ingredients of what in the nineteenth century came to be called liberalism were on a few essential postulates, such as freedom of thought, of speech, and of the press, in sufficient agreement to create a common opposition to conservative and authoritarian views and therefore to appear as part of a common movement. Most of liberalism's adherents would also profess a belief in individual freedom of action and in some sort of equality of all men, but closer examination shows that this agreement was in part only verbal since the key terms 'freedom' and 'equality' were used with somewhat different meanings. While to the older British tradition the freedom of the individual in the sense of a protection by law against all arbitrary coercion was the chief value, in the Continental tradition the demand for the self-determination of each group concerning its form of government occupied the highest place. This led to an early association and almost identification of the Continental movement with the movement for democracy, which is concerned with a different problem from that which was the chief concern of the liberal tradition of the British type.

During the period of their formation these ideas, which in the nineteenth century came to be known as liberalism, were not yet described by that name. The adjective 'liberal' gradually assumed its political connotation during the later part of the eighteenth century when it was used in such occasional phrases as when Adam Smith wrote of 'the liberal plan of equality, liberty, and justice'. As the

name of a political movement liberalism appears, however, only at the beginning of the next century, first when in 1812 it was used by the Spanish party of *Liberales*, and a little later when it was adopted as a party name in France. In Britain it came to be so used only after the Whigs and the Radicals joined in a single party which from the early 1840s came to be known as the Liberal Party. Since the Radicals were inspired largely by what we have described as the Continental tradition, even the English Liberal Party at the time of its greatest influence was based on a fusion of the two traditions mentioned.

In view of these facts it would be misleading to claim the term 'liberal' exclusively for either of the two distinct traditions. They have occasionally been referred to as the 'English', 'classical' or 'evolutionary', and as the 'Continental' or 'constructivistic' types respectively. In the following historical survey both types will be considered, but as only the first has developed a definite political doctrine, the later systematic exposition will have to concentrate on it.

It should be mentioned here that the USA never developed a liberal movement comparable to that which affected most of Europe during the nineteenth century, competing in Europe with the younger movements of nationalism and socialism and reaching the height of its influence in the 1870s and thereafter slowly declining but still determining the climate of public life until 1914. The reason for the absence of a similar movement in the USA is mainly that the chief aspirations of European liberalism were largely embodied in the institutions of the United States since their foundation, and partly that the development of political parties there was unfavourable to the growth of parties based on ideologies. Indeed, what in Europe is or used to be called 'liberal' is in the USA today with some justification called 'conservative'; while in recent times the term 'liberal' has been used there to describe what in Europe would be called socialism. But of Europe it is equally true that none of the political parties which use the designation 'liberal' now adhere to the liberal principles of the nineteenth century.

HISTORICAL

2. The classical and medieval roots

The basic principles from which the Old Whigs fashioned their evolutionary liberalism have a long pre-history. The eighteenth-century

thinkers who formulated them were indeed greatly assisted by ideas drawn from classical antiquity and by certain mediæval traditions which in England had not been extinguished by absolutism.

The first people who had clearly formulated the ideal of individual liberty were the ancient Greeks and particularly the Athenians during the classical period of the fifth and fourth centuries B.C. The denial by some nineteenth-century writers that the ancient knew individual liberty in the modern sense is clearly disproved by such episodes as when the Athenian general at the moment of supreme danger during the Sicilian expedition reminded the soldiers that they were fighting for a country which left them 'unfettered discretion to live as they pleased'. Their conception of freedom was of freedom under the law, or of a state of affairs in which, as the popular phrase ran, law was king. It found expression, during the early classical periods, in the ideal of *isonomia* or equality before the law which, without using the old name, is still clearly described by Aristotle. This law included a protection of the private domain of the citizen against the state which went so far that even under the 'Thirty Tyrants' an Athenian citizen was wholly safe if he stayed at home. Of Crete it is even reported (by Ephorus, quoted by Strabo) that, because liberty was regarded as the state's highest good, the constitution secured 'property specifically to those who acquire it, whereas in a condition of slavery everything belongs to the rulers and not to the ruled'. In Athens the powers of the popular assembly of changing the law were strictly limited, though we find already the first instances of such an assembly refusing to be restrained by established law from arbitrary action. These liberal ideals were further developed, particularly by the Stoic philosophers who extended them beyond the limits of the city state by their conception of a law of nature which limited the powers of all government, and of the equality of all men before that law.

These Greek ideals of liberty were transmitted to the moderns chiefly through the writings of Roman authors. By far the most important of them, and probably the single figure who more than any other inspired the revival of those ideas at the beginning of the modern era, was Marcus Tullius Cicero. But at least the historian Titus Livius and the emperor Marcus Aurelius must be included among the sources on which the sixteenth- and seventeenth-century thinkers chiefly drew at the beginning of the modern development of

liberalism. Rome, in addition, gave at least to the European continent a highly individualist private law, centring on a very strict conception of private property, a law, moreover, with which, until the codification under Justinian, legislation had very little interfered and which was in consequence regarded more as a restriction on, rather than as an exercise of, the powers of government.

The early moderns could draw also on a tradition of liberty under the law which had been preserved through the Middle Ages and was extinguished on the Continent only at the beginning of the modern era by the rise of absolute monarchy. As a modern historian (R. W. Southern) describes it,

the hatred of that which was governed, not by rule, but by will, went very deep in the Middle Ages, and at no time was this hatred as powerful and practical a force as in the latter half of the period. . . . Law was not the enemy of freedom: on the contrary, the outline of liberty was traced by the bewildering variety of law which was evolved during the period. . . . High and low alike sought liberty by insisting on enlarging the number of rules under which they lived.

This conception received a strong support from the belief in a law which existed apart from and above government, a conception which on the Continent was conceived as a law of nature but in England existed as the Common Law which was not the product of a legislator but had emerged from a persistent search for impersonal justice. The formal elaboration of these ideas was on the Continent carried on chiefly by the Schoolmen after it had received its first great systematization, on foundations deriving from Aristotle, at the hands of Thomas Aquinas; by the end of the sixteenth century it had been developed by some of the Spanish Jesuit philosophers into a system of essentially liberal policy, especially in the economic field, where they anticipated much that was revived only by the Scottish philosophers of the eighteenth century.

Mention should finally also be made of some of the early developments in the city states of the Italian Renaissance, especially Florence, and in Holland, on which the English development in the seventeenth and eighteenth centuries could largely draw.

3. *The English Whig tradition*

It was in the course of the debates during the English Civil War and the Commonwealth period that the ideas of the rule or supremacy of law became finally articulated which after the 'Glorious Revolution' of 1688 became the leading principles of the Whig Party that it brought to power. The classical formulations were supplied by John Locke's *Second Treatise on Civil Government* (1689) which, however, in some respects provides a still more rationalist interpretation of institutions than came to be characteristic of eighteenth-century British thinkers. (A fuller account would also have to consider the writings of Algernon Sidney and Gilbert Burnet as early expositors of the Whig doctrine.) It was also during this period that that close association of the British liberal movement and the predominantly non-conformist and Calvinist commercial and industrial classes arose which remained characteristic of British liberalism until recent times. Whether this merely meant that the same classes which developed a spirit of commercial enterprise were also more receptive to Calvinist Protestantism, or whether these religious views led more directly to liberal principles of politics, is a much discussed issue which cannot be further considered here. But the fact that the struggle between initially very intolerant religious sects produced in the end principles of tolerance, and that the British liberal movement remained closely connected with Calvinist Protestantism, is beyond doubt.

In the course of the eighteenth century the Whig doctrine of government limited by general rules of law and of severe restrictions on the powers of the executive became characteristic British doctrine. It was made known to the world at large chiefly through Montesquieu's *Esprit des lois* (1748) and the writings of other French authors, notably Voltaire. In Britain the intellectual foundations were further developed chiefly by the Scottish moral philosophers, above all David Hume and Adam Smith, as well as by some of their English contemporaries and immediate successors. Hume not only laid in his philosophical work the foundation of the liberal theory of law, but in his *History of England* (1754-62) also provided an interpretation of English history as the gradual emergence of the Rule of Law which made the conception known far beyond the limits of Britain. Adam Smith's decisive contribution was the account of a self-generating order which formed itself spontaneously if the individuals

were restrained by appropriate rules of law. His *Inquiry into the Nature and Causes of the Wealth of Nations* marks perhaps more than any other single work the beginning of the development of modern liberalism. It made people understand that those restrictions on the powers of government which had originated from sheer distrust of all arbitrary power had become the chief cause of Britain's economic prosperity.

The beginnings of a liberal movement in Britain were soon interrupted, however, by a reaction against the French Revolution and a distrust of its admirers in England, who endeavoured to import to England the ideas of Continental or constructivist liberalism. The end of this early English development of liberalism is marked by the work of Edmund Burke who, after his brilliant restatement of the Whig doctrine in defence of the American colonists, violently turned against the ideas of the French Revolution.

It was only after the end of the Napoleonic wars that the development based on the doctrine of the Old Whigs and of Adam Smith was resumed. The further intellectual development was guided largely by a group of disciples of the Scottish moral philosophers who gathered round the *Edinburgh Review*, mostly economists in the tradition of Adam Smith; the pure Whig doctrine was once more restated in a form which widely affected Continental thinking by the historian T. B. Macaulay who for the nineteenth century did what Hume in his historical work had done for the eighteenth. Already, however, this development was paralleled by the rapid growth of a radical movement of which the Benthamite 'Philosophical Radicals' became the leaders and which traced back more to the Continental than to the British tradition. It was ultimately from the fusion of these traditions that in the 1830s the political party arose which from about 1842 came to be known as the Liberal Party, and for the rest of the century remained the most important representative of the liberal movement in Europe.

Long before that, however, another decisive contribution had come from America. The explicit formulation by the former British colonists, in a written constitution, of what they understood to be the essentials of the British tradition of liberty, intended to limit the powers of government, and especially the statement of the fundamental liberties in a Bill of Rights, provided a model of political institutions which profoundly affected the development of liberalism in Europe. Though the United States, just because their people felt

that they had already embodied the safeguards of liberty in their political institutions, never developed a distinct liberal movement, for the Europeans they became the dreamland of liberty and the example which inspired political aspirations as much as English institutions had done during the eighteenth century.

4. The development of Continental liberalism

The radical ideas of the philosophers of the French Enlightenment, mainly in the form in which they had been applied to political problems by Turgot, Condorcet and the Abbé Sieyès, largely dominated progressive opinion in France and the adjoining countries of the Continent during the Revolutionary and Napoleonic periods; but of a definite liberal movement one can speak only after the Restoration. In France it reached its height during the July Monarchy (1830-48), but after that period remained confined to a small élite. It was made up of several different strands of thought. An important attempt to systematize and adapt to Continental conditions what he regarded as the British tradition was made by Benjamin Constant, and was developed further during the 1830s and 1840s by a group known as the 'doctrinaires' under the leadership of F. P. G. Guizot. Their programme, known as 'guarantism', was essentially a doctrine of constitutional limitations of government. For this constitutional doctrine which made up the most important part of the Continental liberal movement of the first half of the nineteenth century, the constitution of 1831 of the newly created Belgian state served as an important model. To this tradition, largely deriving from Britain, also belonged the perhaps most important French liberal thinker, Alexis de Tocqueville.

The feature, however, which greatly distinguished the type of liberalism predominant on the Continent from the British one was from the beginning what is best described as its free-thinking aspect, which expressed itself in a strong anti-clerical, anti-religious and generally anti-traditionalist attitude. Not only in France, but also in the other Roman Catholic parts of Europe, the continuous conflict with the church of Rome became indeed so characteristic of liberalism that to many people it appeared as its primary characteristic, particularly after, in the second half of the century, the church took up the struggle against 'modernism' and therefore against most demands for liberal reform.

During the first half of the century, up to the revolutions of 1848,

the liberal movement in France, as well as in most of the rest of western and central Europe, had also been much more closely allied with the democratic movement than was the case with British liberalism. It was indeed largely displaced by it and by the new socialist movement during the second half of the century. Except for a short period around the middle of the century, when the movement for free trade rallied the liberal groups, liberalism did not again play an important role in the political development of France, nor after 1848 did French thinkers make any important contributions to its doctrine.

A somewhat more important role was played by the liberal movement in Germany, and a more distinct development did take place during the first three-quarters of the nineteenth century. Though greatly influenced by the ideas derived from Britain and France, these were transformed by ideas of the three greatest and earliest of the German liberals, the philosopher Immanuel Kant, the scholar and statesman Wilhelm von Humboldt, and the poet Friedrich Schiller. Kant had provided a theory on lines similar to those of David Hume, centred on the concepts of law as the protection of individual freedom and of the Rule of Law (or the *Rechtsstaat*, as it came to be known in Germany); Humboldt had in an early work *On the Sphere and Duties of Government* (1792) developed the picture of a state wholly confined to the maintenance of law and order – a book of which only a small part was published at the time, but which, when it was finally published (and translated into English) in 1854, exercised wide influence not only in Germany but also on such diverse thinkers as J. S. Mill in England and E. Laboulaye in France. The poet Schiller, finally, probably did more than any other single person to make the whole educated public in Germany familiar with the ideal of personal liberty.

There was an early beginning towards a liberal policy in Prussia during the reforms of Freiherr vom Stein, but it was followed by another period of reaction after the end of the Napoleonic wars. Only in the 1830s did a general liberal movement begin to develop, which from the beginning, however, as was also true in Italy, was closely associated with a nationalist movement aiming at the unification of the country. In general, German liberalism was mainly a constitutionalist movement which in north Germany was somewhat more guided by the British example, while in the south the French model was more influential. This found expression chiefly in a

different attitude towards the problem of limiting the discretionary powers of government which in the north produced a fairly strict conception of the Rule of Law (or the *Rechtsstaat*), while in the south it was guided more by the French interpretation of the Separation of Powers that stressed the independence of the administration from the ordinary courts. In the south, however, and especially in Baden and Württemberg, there developed a more active group of liberal theorists around the *Staatslexicon* of C. von Rotteck and C. T. Welcker, which in the period before the revolution of 1848 became the main centre of German liberal thought. The failure of that revolution brought another short period of reaction, but in the 1860s and early 1870s it seemed for a time as if Germany, too, were rapidly moving towards a liberal order. It was during this period that the constitutional and legal reforms intended definitely to establish the *Rechtsstaat* were brought to completion. The middle of the 1870s must probably be regarded as the time when the liberal movement in Europe had gained its greatest influence and its easternmost expansion. With the German return to protection in 1878, and the new social policies initiated by Bismarck at about the same time, the reversal of the movement began. The liberal party which had flourished for little more than a dozen years rapidly declined.

Both in Germany and in Italy the decline of the liberal movement set in when it lost its association with the movement for national unification, and the achieved unity directed attention to the strengthening of the new states, and when, moreover, the beginnings of a labour movement deprived liberalism of the position of the 'advanced' party which until then the politically active part of the working class had supported.

5. Classical British liberalism

Throughout the greater part of the nineteenth century the European country which seemed nearest to a realization of the liberal principles was Great Britain. There most of them appeared to be accepted not only by a powerful Liberal Party but by the majority of the population, and even the Conservatives often became the instrument of the achievement of liberal reforms. The great events after which Britain could appear to the rest of Europe as the representative model of a liberal order were the Catholic emancipation of 1829, the Reform Act of 1832, and the repeal of the corn laws by the Conservative, Sir

Robert Peel, in 1846. Since by then the chief demands of liberalism concerning internal policy were satisfied, agitation concentrated on the establishment of free trade. The movement initiated by the Merchants' Petition of 1820, and carried on from 1836 to 1846 by the Anti-Corn-Law League, was developed particularly by a group of radicals who, under the leadership of Richard Cobden and John Bright, took a somewhat more extreme *laissez faire* position than would have been required by the liberal principles of Adam Smith and the classical economists following him. Their predominant free trade position was combined with a strong anti-imperialist, anti-interventionist and anti-militarist attitude and an aversion to all expansion of governmental powers; the increase of public expenditure was regarded by them as mainly due to undesirable interventions in overseas affairs. Their opposition was directed chiefly against the expansion of the powers of central government, and most improvements were expected from autonomous efforts either of local government or of voluntary organizations. 'Peace, Retrenchment and Reform' became the liberal watchword of this period, with 'reform' referring more to the abolition of old abuses and privileges than the extension of democracy, with which the movement became more closely associated only at the time of the Second Reform Act of 1867. The movement had reached its climax with the Cobden Treaty with France of 1860, a commercial treaty which led to the establishment of free trade in Britain and a widespread expectation that free trade would soon universally prevail. At that time there emerged also in Britain, as the leading figure of the liberal movement, W. E. Gladstone who, first as Chancellor of the Exchequer and then as liberal Prime Minister, came to be widely regarded as the living embodiment of liberal principles, especially, after Palmerston's death in 1865, with regard to foreign policy, with John Bright as his chief associate. With him also the old association of British liberalism with strong moral and religious views revived.

In the intellectual sphere during the second half of the nineteenth century the basic principles of liberalism were intensively discussed. In the philosopher Herbert Spencer an extreme advocacy of an individualist minimum state, similar to the position of W. von Humboldt, found an effective expounder. But John Stuart Mill, in his celebrated book *On Liberty* (1859), directed his criticism chiefly against the tyranny of opinion rather than the actions of government, and by his advocacy of distributive justice and a general sympathetic

attitude towards socialist aspirations in some of his other works, prepared the gradual transition of a large part of the liberal intellectuals to a moderate socialism. This tendency was noticeably strengthened by the influence of the philosopher T. H. Green who stressed the positive functions of the state against the predominantly negative conception of liberty of the older liberals.

But though the last quarter of the nineteenth century saw already much internal criticism of liberal doctrines within the liberal camp and though the Liberal Party was beginning to lose support to the new labour movement, the predominance of liberal ideas in Great Britain lasted well into the twentieth century and succeeded in defeating a revival of protectionist demands, though the Liberal Party could not avoid a progressive infiltration by interventionist and imperialist elements. Perhaps the government of H. Campbell-Bannerman (1905-8) should be regarded as the last liberal government of the old type, while under his successor, H. H. Asquith, new experiments in social policy were undertaken which were only doubtfully compatible with the older liberal principles. But on the whole it can be said that the liberal era of British policy lasted until the outbreak of the First World War, and that the dominating influence of liberal ideas in Britain was terminated only by the effects of this war.

6. The decline of liberalism

Though some of the elder European statesmen and other leaders in practical affairs after the First World War were still guided by an essentially liberal outlook, and attempts were made at first to restore the political and economic institutions of the pre-war period, several factors brought it about that the influence of liberalism steadily declined until the Second World War. The most important was that socialism, particularly in the opinion of a large part of the intellectuals, had replaced liberalism as the progressive movement. Political discussion was thus carried on mainly between socialists and conservatives, both supporting increasing activities of the state, though with different aims. The economic difficulties, unemployment and unstable currencies, seemed to demand much more economic control by government and led to a revival of protectionism and other nationalistic policies. A rapid growth of the bureaucratic apparatus of government and the acquisition of far-reaching discretionary powers by it was the consequence. These tendencies, already strong during

the first post-war decade, became even more marked during the Great Depression following the US crash of 1929. The final abandonment of the gold standard and the return to protection by Great Britain in 1931 seemed to mark the definite end of a free world economy. The rise of dictatorial or totalitarian régimes in large parts of Europe not only extinguished the weak liberal groups which had remained in the countries immediately affected, but the threat of war which it produced led even in Western Europe to an increasing government dominance over economic affairs and a tendency towards national self-sufficiency.

After the end of the Second World War there occurred once more a temporary revival of liberal ideas, due partly to a new awareness of the oppressive character of all kinds of totalitarian régimes, and partly to the recognition that the obstacles to international trade which had grown up during the inter-war period had been largely responsible for the economic depression. The representative achievement was the General Agreement on Tariffs and Trade (GATT) of 1948, but the attempts to create a larger economic unit such as the Common Market and EFTA also ostensibly aimed in the same direction. Yet the most remarkable event which seemed to promise a return to liberal economic principles was the extraordinary economic recovery of the defeated Germany which, on the initiative of Ludwig Erhard, had explicitly committed herself to what was called a 'social market economy', and as a result soon outstripped the victorious nations in prosperity. These events ushered in an unprecedented period of great prosperity which for a time made it seem probable that an essentially liberal economic régime might again durably establish itself in western and central Europe. In the intellectual sphere, too, the period brought renewed efforts to restate and improve the principles of liberal politics. But the endeavours to prolong the prosperity and to secure full employment by means of the expansion of money and credit, in the end created a world-wide inflationary development to which employment so adjusted itself that inflation could not be discontinued without producing extensive unemployment. Yet a functioning market economy cannot be maintained under accelerating inflation, if for no other reason than because governments will soon feel constrained to combat the effects of inflation by the control of prices and wages. Inflation has always and everywhere led to a directed economy, and it is only too likely that the commitment to an inflationary policy

will mean the destruction of the market economy and the transition to a centrally directed totalitarian economic and political system.

At present the defenders of the classical liberal position have again shrunk to very small numbers, chiefly economists. And the name 'liberal' is coming to be used, even in Europe, as has for some time been true of the USA, as a name for essentially socialist aspirations, because, in the words of J. A. Schumpeter, 'as a supreme but unintended compliment, the enemies of the system of private enterprise have thought it wise to appropriate the label'.

SYSTEMATIC

7. The liberal conception of freedom

Since only the 'British' or evolutionary type of liberalism has developed a definite political programme, an attempt at a systematic exposition of the principles of liberalism will have to concentrate on it, and the views of the 'Continental' or constructivistic type will be mentioned only occasionally by way of contrast. This fact also demands the rejection of another distinction frequently drawn on the Continent, but inapplicable to the British type, that between political and economic liberalism (elaborated especially by the Italian philosopher, Benedetto Croce, as the distinction between *liberalismo* and *liberismo*). For the British tradition the two are inseparable because the basic principle of the limitation of the coercive powers of government to the enforcement of general rules of just conduct deprives government of the power of directing or controlling the economic activities of the individuals, while the conferment of such powers gives government essentially arbitrary and discretionary power which cannot but restrict even the freedom in the choice of individual aims which all liberals want to secure. Freedom under the law implies economic freedom, while economic control, as the control of the means for all purposes, makes a restriction of all freedom possible.

It is in this connection that the apparent agreement of the different kinds of liberalism on the demand for freedom of the individual, and the respect for the individual personality which this implies, conceals an important difference. During the heyday of liberalism this concept of freedom had a fairly definite meaning: it meant primarily that the free person was not subject to arbitrary coercion. But for

man living in society protection against such coercion required a restraint on all men, depriving them of the possibility of coercing others. Freedom for all could be achieved only if, in the celebrated formula of Immanuel Kant, the freedom of each did not extend further than was compatible with an equal freedom for all others. The liberal conception of freedom was therefore necessarily one of freedom under a law which limited the freedom of each so as to secure the same freedom for all. It meant not what was sometimes described as the 'natural freedom' of an isolated individual, but the freedom possible in society and restricted by such rules as were necessary to protect the freedom of others. Liberalism in this respect is to be sharply distinguished from anarchism. It recognizes that if all are to be as free as possible, coercion cannot be entirely eliminated, but only reduced to that minimum which is necessary to prevent individuals or groups from arbitrarily coercing others. It was a freedom within a domain circumscribed by known rules which made it possible for the individual to avoid being coerced so long as he kept within these limits.

This freedom could also be assured only to those capable of obeying the rules intended to secure it. Only the adult and sane, presumed to be fully responsible for their actions, were regarded as fully entitled to that freedom, while various degrees of tutelage were regarded as appropriate in the case of children and persons not in full possession of their mental faculties. And by infringement of the rules intended to secure the same liberty for all, a person might as penalty forfeit that exemption from coercion which those who obeyed them enjoyed.

This freedom thus conferred on all judged responsible for their actions also held them responsible for their own fate: while the protection of the law was to assist all in the pursuit of their aims, government was not supposed to guarantee to the individuals particular results of their efforts. To enable the individual to use his knowledge and abilities in the pursuit of his self-chosen aims was regarded both as the greatest benefit government could secure to all, as well as the best way of inducing these individuals to make the greatest contribution to the welfare of others. To bring forth the best efforts for which an individual was enabled by his particular circumstances and capabilities, of which no authority could know, was thought to be the chief advantage which the freedom of each would confer on all others.

The liberal conception of freedom has often been described as a merely negative conception, and rightly so. Like peace and justice, it refers to the absence of an evil, to a condition opening opportunities but not assuring particular benefits; though it was expected to enhance the probability that the means needed for the purposes pursued by the different individuals would be available. The liberal demand for freedom is thus a demand for the removal of all man-made obstacles to individual efforts, not a claim that the community or the state should supply particular goods. It does not preclude such collective action where it seems necessary, or at least a more effective way for securing certain services, but regards this as a matter of expediency and as such limited by the basic principle of equal freedom under the law. The decline of liberal doctrine, beginning in the 1870s, is closely connected with a re-interpretation of freedom as the command over, and usually the provision by the state of, the means of achieving a great variety of particular ends.

8. The liberal conception of law

The meaning of the liberal conception of liberty under the law, or of absence of arbitrary coercion, turns on the sense which in this context is given to 'law' and 'arbitrary'. It is partly due to differences in the uses of these expressions that within the liberal tradition there exists a conflict between those for whom, as for John Locke, freedom could exist only under the law ('for who could be free when every other man's humour could domineer over him?') while to many of the Continental liberals and to Jeremy Bentham, as the latter expressed it, 'every law is an evil for every law is an infraction of liberty.'

It is of course true that law can be used to destroy liberty. But not every product of legislation is a law in the sense in which John Locke or David Hume or Adam Smith or Immanuel Kant or the later English Whigs regarded law as a safeguard of freedom. What they had in mind when they spoke of law as the indispensable safeguard of freedom were only those rules of just conduct which constitute the private and criminal law, but not every command issued by the legislative authority. To qualify as law, in the sense in which it was used in the British liberal tradition to describe the conditions of freedom, the rules enforced by government had to possess certain attributes which a law like the English Common Law of necessity possessed, but which the products of legislation need not

possess: they must be general rules of individual conduct, applicable to all alike in an unknown number of future instances, defining the protected domain of the individuals, and therefore essentially of the nature of prohibitions rather than of specific commands. They are therefore also inseparable from the institution of several property. It was within the limits determined by these rules of just conduct that the individual was supposed to be free to use his own knowledge and skills in the pursuit of his own purposes in any manner which seemed appropriate to him.

The coercive powers of government were thus supposed to be limited to the enforcement of those rules of just conduct. This, except to an extreme wing of the liberal tradition, did not preclude that government should not render also other services to the citizens. It meant only that, whatever other services government might be called upon to provide, it could for such purposes use only the resources placed at its disposal, but could not coerce the private citizen; or, in other words, the person and the property of the citizen could not be used by government as a means for the achievement of its particular purposes. In this sense an act of the duly authorized legislature might be as arbitrary as an act of an autocrat, indeed any command or prohibition directed to particular persons or groups, and not following from a rule of universal applicability, would be regarded as arbitrary. What thus makes *an act of coercion* arbitrary, in the sense in which the term is used in the old liberal tradition, is that it serves a particular end of government, is determined by a specific act of will and not by a universal rule needed for the maintenance of that self-generating overall order of actions, which is served by all the other enforced rules of just conduct.

9. *Law and the spontaneous order of actions*

The importance which liberal theory attached to the rules of just conduct is based on the insight that they are an essential condition for the maintenance of a self-generating or spontaneous order of the actions of the different individuals and groups, each of which pursues his own ends on the basis of his own knowledge. At least the great founders of liberal theory in the eighteenth century, David Hume and Adam Smith, did not assume a natural harmony of interests, but rather contended that the divergent interests of the different individuals could be reconciled by the observance of appropriate rules of conduct; or, as their contemporary, Josiah Tucker, expressed it,

that 'the universal mover in human nature, self-love, may receive such a direction . . . as to promote the public interest by those efforts it shall make towards pursuing its own'. Those eighteenth-century writers were indeed as much philosophers of law as students of the economic order, and their conception of law and their theory of the market mechanism are closely connected. They understood that only the recognition of certain principles of law, chiefly the institution of several property and the enforcement of contracts, would secure such a mutual adjustment of the plans of action of the separate individuals that all might have a good chance of carrying out the plans of action which they had formed. It was, as later economic theory brought out more clearly, this mutual adjustment of individual plans which enabled people to serve each other while using their different knowledge and skills in the service of their own ends.

The function of the rules of conduct was thus not to organize the individual efforts for particular agreed purposes, but to secure an overall order of actions within which each should be able to benefit as much as possible from the efforts of others in the pursuit of his own ends. The rules conducive to the formation of such a spontaneous order were regarded as the product of long experimentation in the past. And though they were regarded as capable of improvement, it was thought that such improvement must proceed slowly and step by step as new experience showed it to be desirable.

The great advantage of such a self-generating order was thought to be, not only that it left the individuals free to pursue their own purposes, whether these were egotistic or altruistic. It was also that it made possible the utilization of the widely dispersed knowledge of particular circumstances of time and place which exists only as the knowledge of those different individuals, and could in no possible way be possessed by some single directing authority. It is this utilization of more knowledge of particular facts than would be possible under any system of central direction of economic activity, that brings about as large an aggregate product of society as can be brought about by any known means.

But while leaving the formation of such an order to the spontaneous forces of the market, operating under the restraint of appropriate rules of law, secures a more comprehensive order and a more complete adaptation to the particular circumstances, it also means that the particular contents of this order will not be subject to

deliberate control but are left largely to accident. The framework of rules of law, and all the various special institutions which serve the formation of the market order can determine only its general or abstract character, but not its specific effects on particular individuals or groups. Though its justification consists in it increasing the chances of all, and in making the position of each in a large measure dependent on his own efforts, it still leaves the outcome for each individual and group dependent also on unforeseen circumstances which neither they nor anybody else can control. Since Adam Smith the process by which the shares of the individuals are determined in a market economy has therefore often been likened to a game in which the results for each depend partly on his skill and effort and partly on chance. The individuals have reason to agree to play this game because it makes the pool from which the individual shares are drawn larger than it can be made by any other method. But at the same time it makes the share of each individual subject to all kinds of accidents and certainly does not secure that it always corresponds to the subjective merits or to the esteem by others of the individual efforts.

Before considering further the problems of the liberal conception of justice which this raises, it is necessary to consider certain constitutional principles in which the liberal conception of law came to be embodied.

10. Natural rights, the separation of powers, and sovereignty

The basic liberal principle of limiting coercion to the enforcement of general rules of just conduct has rarely been stated in this explicit form, but has usually found expression in two conceptions characteristic of liberal constitutionalism, that of indefeasible or natural rights of the individual (also described as fundamental rights or rights of man) and that of the separation of powers. As the French Declaration of the Rights of Man and of the Citizen of 1789, at the same time the most concise and the most influential statement of liberal principles, expressed it: 'Any society in which rights are not securely guaranteed, and the separation of powers is not determined, has no constitution.'

The idea of specially guaranteeing certain fundamental rights, such as 'liberty, property, security and resistance to oppression', and, more specifically, such freedoms as those of opinion, of speech, of assembly, of the press, which make their appearance first in the

course of the American revolution, is, however, only an application of the general liberal principle to certain rights which were thought to be particularly important and, being confined to enumerated rights, does not go as far as the general principle. That they are merely particular applications of the general principle appears from the fact that none of these basic rights is treated as an absolute right, but that they all extend only so far as they are not limited by general laws. Yet, since according to the most general liberal principle *all* coercive action of government is to be limited to the enforcement of such general rules, all the basic rights listed in any of the catalogues or bills of protected rights, and many others never embodied in such documents, would be secured by a single clause stating that general principle. As is true of economic freedom, all the other freedoms would be secured if the activities of the individuals could not be limited by specific prohibitions (or the requirement of specific permissions) but only by general rules equally applicable to all.

The principle of the separation of powers in its original sense also is an application of the same general principle, but only in so far as in the distinction between the three powers of legislation, jurisdiction and administration the term 'law' is understood, as it undoubtedly was by the early propounders of the principle, in the narrow sense of general rules of just conduct. So long as the legislature could pass only laws in this narrow sense, the courts could only order (and the executive only apply) coercion in order to secure obedience to such general rules. This, however, would be true only in so far as the power of the legislature was confined to laying down such laws in the strict sense (as in the opinion of John Locke it ought to be), but not if the legislature could give to the executive any orders it thought fit, and if any action of the executive authorized in this manner was regarded as legitimate. Where the representative assembly, called the legislature, has become, as it has in all modern states, the supreme governmental authority which directs the action of the executive on particular matters, and the separation of powers merely means that the executive must not do anything not so authorized, this does not secure that the liberty of the individual is restricted only by laws in the strict sense in which liberal theory used the term.

The limitation of the powers of the legislature that was implicit in the original conception of the separation of powers also implies a

rejection of the idea of *any* unlimited or sovereign power, or at least of any authority of organized power to do what it likes. The refusal to recognize such a sovereign power, very clear in John Locke and again and again recurring in later liberal doctrine, is one of the chief points where it clashes with the now predominant conceptions of legal positivism. It denies the logical necessity of the derivation of all legitimate power from a single sovereign source, or any organized 'will', on the ground that such a limitation of all organized power may be brought about by a general state of opinion which refuses allegiance to any power (or organized will) which takes action of a *kind* which this general opinion does not authorize. It believes that even a force such as general opinion, though not capable of formulating specific acts of will, may yet limit the legitimate power of all organs of government to actions possessing certain general attributes.

11. Liberalism and justice

Closely connected with the liberal conception of law is the liberal conception of justice. It is different from that now widely held in two important respects: it is founded on a belief in the possibility of discovering objective rules of just conduct independent of particular interests; and it concerns itself only with the justice of human conduct, or the rules governing it, and not with the particular results of such conduct on the position of the different individuals or groups. Especially in contrast to socialism it may be said that liberalism is concerned with commutative justice and not with what is called distributive or now more frequently 'social' justice.

The belief in the existence of rules of just conduct which can be discovered but not arbitrarily created rests on the fact that the great majority of such rules will at all times be unquestioningly accepted, and that any doubt about the justice of a particular rule must be resolved within the context of this body of generally accepted rules, in such a manner that the rule to be accepted will be compatible with the rest: that is, it must serve the formation of the same kind of abstract order of actions which all the other rules of just conduct serve, and must not conflict with the requirements of any one of these rules. The test of the justice of any particular rules is thus whether its universal application is possible because it proves to be consistent with all the other accepted rules.

It is often alleged that this belief of liberalism in a justice independent of particular interests depends on a conception of a law of nature

that has been conclusively rejected by modern thought. Yet it can be represented as dependent on a belief in a law of nature only in a very special sense of this term, a sense in which it is by no means true that it has been effectively refuted by legal positivism. It is undeniable that the attacks of legal positivism have done much to discredit this essential part of the traditional liberal creed. Liberal theory is indeed in conflict with legal positivism with regard to the latter's assertion that all law is or must be the product of the (essentially arbitrary) will of a legislator. Yet once the general principle of a self-maintaining order based on several property and the rules of contract is accepted, there will, within the system of generally accepted rules, be required particular answers to specific questions – made necessary by the rationale of the whole system – and the appropriate answers to such questions will have to be discovered rather than arbitrarily invented. It is from this fact that the legitimate conception springs that particular rules rather than others will be required by 'the nature of the case'.

The ideal of distributive justice has frequently attracted liberal thinkers, and has become probably one of the main factors which led so many of them from liberalism to socialism. The reason why it must be rejected by consistent liberals is the double one that there exist no recognized or discoverable general principles of distributive justice, and that, even if such principles could be agreed upon, they could not be put into effect in a society whose productivity rests on the individuals being free to use their own knowledge and abilities for their own purposes. The assurance of particular benefits to particular people as rewards corresponding to their merits or needs, however assessed, requires a kind of order of society altogether different from that spontaneous order which will form itself if individuals are restrained only by general rules of just conduct. It requires an order of the kind (best described as an organization) in which the individuals are made to serve a common unitary hierarchy of ends, and required to do what is needed in the light of an authoritative plan of action. While a spontaneous order in this sense does not serve any single order of needs, but merely provides the best opportunities for the pursuit of a great variety of individual needs, an organization presupposes that all its members serve the same system of ends. And the kind of comprehensive single organization of the whole of society, which would be necessary in order to secure that each gets what some authority thinks he deserves, must produce

a society in which each must also do what the same authority prescribes.

12. Liberalism and equality

Liberalism merely demands that so far as the state determines the conditions under which the individuals act it must do so according to the same formal rules for all. It is opposed to all legal privilege, to any conferment by government of specific advantages on some which it does not offer to all. But since, without the power of specific coercion, government can control only a small part of the conditions which determine the prospects of the different individuals, and these individuals are necessarily very different, both in their individual abilities and knowledge as well as in the particular (physical and social) environment in which they find themselves, equal treatment under the same general laws must result in very different positions of the different persons; while in order to make the position or the opportunities of the different persons equal, it would be necessary that government treat them differently. Liberalism, in other words, merely demands that the procedure, or the rules of the game, by which the relative positions of the different individuals are determined, be just (or at least not unjust), but not that the particular results of this process for the different individuals be just; because these results, in a society of free men, will always depend also on the actions of the individuals themselves and on numerous other circumstances which nobody can in their entirety determine or foresee.

In the heyday of classical liberalism, this demand was commonly expressed by the requirement that all careers should be open to talents, or more vaguely and inexactly as 'equality of opportunity'. But this meant in effect only that those obstacles to the rise to higher positions should be removed which were the effect of legal discriminations between persons. It did not mean that thereby the chances of the different individuals could be made the same. Not only their different individual capacities, but above all the inevitable differences of their individual environments, and in particular the family in which they grew up, would still make their prospects very different. For this reason the idea that has proved so attractive to most liberals, that only an order in which the initial chances of all individuals are the same at the start, can be regarded as just, is incapable of realization in a free society; it would require a deliberate

manipulation of the environment in which all the different individuals worked which would be wholly irreconcilable with the ideal of a freedom in which the individuals can use their own knowledge and skill to shape this environment.

But though there are strict limits to the degree of material equality which can be achieved by liberal methods, the struggle for formal equality, i.e. against all discrimination based on social origin, nationality, race, creed, sex, etc., remained one of the strongest characteristics of the liberal tradition. Though it did not believe that it was possible to avoid great differences in material positions, it hoped to remove their sting by a progressive increase of vertical mobility. The chief instrument by which this was to be secured was the provision (where necessary out of public funds) of a universal system of education which would at least place all the young at the foot of the ladder on which they would then be able to rise in accordance with their abilities. It was thus by the provision of certain services to those not yet able to provide for themselves that many liberals endeavoured at least to reduce the social barriers which tied individuals to the class into which they were born.

More doubtfully compatible with the liberal conception of equality is another measure which also gained wide support in liberal circles, namely the use of progressive taxation as a means to effect a redistribution of income in favour of the poorer classes. Since no criterion can be found by which such progression can be made to correspond to a rule which may be said to be the same for all, or which would limit the degree of extra burden on the more wealthy, it would seem that a *generally* progressive taxation is in conflict with the principle of equality before the law and it was in general so regarded by liberals in the nineteenth century.

13. Liberalism and democracy

By the insistence on a law which is the same for all, and the consequent opposition to all legal privilege, liberalism came to be closely associated with the movement for democracy. In the struggle for constitutional government in the nineteenth century, the liberal and the democratic movements indeed were often indistinguishable. Yet in the course of time the consequence of the fact that the two doctrines were in the last resort concerned with different issues became more and more apparent. Liberalism is concerned with the functions of government and particularly with the limitation of all its powers.

Democracy is concerned with the question of who is to direct government. Liberalism requires that all power, and therefore also that of the majority, be limited. Democracy came to regard current majority opinion as the only criterion of the legitimacy of the powers of government. The difference between the two principles stands out most clearly if we consider their opposites: with democracy it is authoritarian government; with liberalism it is totalitarianism. Neither of the two systems necessarily excludes the opposite of the other: a democracy may well wield totalitarian powers, and it is at least conceivable that an authoritarian government might act on liberal principles.

Liberalism is thus incompatible with unlimited democracy, just as it is incompatible with all other forms of unlimited government. It presupposes the limitation of the powers even of the representatives of the majority by requiring a commitment to principles either explicitly laid down in a constitution or accepted by general opinion so as to effectively confine legislation.

Thus, though the consistent application of liberal principles leads to democracy, democracy will preserve liberalism only if, and so long as, the majority refrains from using its powers to confer on its supporters special advantages which cannot be similarly offered to all citizens. This might be achieved in a representative assembly whose powers were confined to passing laws in the sense of general rules of just conduct, on which agreement among a majority is likely to exist. But it is most unlikely in an assembly which habitually directs the specific measures of government. In such a representative assembly, which combines true legislative with governmental powers, and which is therefore in the exercise of the latter not limited by rules that it cannot alter, the majority is not likely to be based on true agreement on principles, but will probably consist of coalitions of various organized interests which will mutually concede to each other special advantages. Where, as is almost inevitable in a representative body with unlimited powers, decisions are arrived at by a bartering of special benefits to the different groups, and where the formation of a majority capable of governing depends on such bartering, it is indeed almost inconceivable that these powers will be used only in the true general interests.

But while for these reasons it seems almost certain that unlimited democracy will abandon liberal principles in favour of discriminatory measures benefiting the various groups supporting the majority,

it is also doubtful whether in the long run democracy can preserve itself if it abandons liberal principles. If government assumes tasks which are too extensive and complex to be effectively guided by majority decisions, it seems inevitable that effective powers will devolve to a bureaucratic apparatus increasingly independent of democratic control. It is therefore not unlikely that the abandonment of liberalism by democracy will in the long run also lead to the disappearance of democracy. There can, in particular, be little doubt that the kind of directed economy towards which democracy seems to be tending requires for its effective conduct a government with authoritarian powers.

14. The service functions of government

The strict limitation of governmental powers to the enforcement of general rules of just conduct required by liberal principles refers only to the coercive powers of government. Government may render in addition, by the use of the means placed at its disposal, many services which involve no coercion except for the raising of the means by taxation; and apart perhaps from some extreme wings of the liberal movement, the desirability of government undertaking such tasks has never been denied. They were, however, in the nineteenth century still of minor and mainly traditional importance and little discussed by liberal theory which merely stressed that such services had better be left in the hands of local rather than central government. The guiding consideration was a fear that central government would become too powerful, and a hope that competition between the different local authorities would effectively control and direct the development of these services on desirable lines.

The general growth of wealth and the new aspirations whose satisfaction were made possible by it have since led to an enormous growth of those service activities, and have made necessary a much more clear-cut attitude towards them than classical liberalism ever took. There can be no doubt that there are many such services, known to the economists as 'public goods', which are highly desirable but cannot be provided by the market mechanism, because if they are provided they will benefit everybody and cannot be confined to those who are willing to pay for them. From the elementary tasks of the protection against crime or the prevention of the spreading of contagious diseases and other health services, to the great variety of problems which the large urban agglomerations

raise most acutely, the required services can only be provided if the means to defray their costs are raised by taxation. This means that, if these services are to be provided at all, at least their finance, if not necessarily also their operation must be placed in the hands of agencies which have the power of taxation. This need not mean that government is given the exclusive right to render these services, and the liberal will wish that the possibility be left open that when ways of providing such services by private enterprise are discovered, this can be done. He will also retain the traditional preference that those services should so far as possible be provided by local rather than central authorities and be paid for by local taxation, since in this manner at least some connection between those who benefit and those who pay for a particular service will be preserved. But beyond this liberalism has developed scarcely any definite principles to guide policy in this wide field of ever increasing importance.

The failure to apply the general principles of liberalism to the new problems showed itself in the course of the development of the modern Welfare State. Though it should have been possible to achieve many of its aims within a liberal framework, this would have required a slow experimental process; yet the desire to achieve them by the most immediately effective path led everywhere to the abandonment of liberal principles. While it should have been possible, in particular, to provide most of the services of social insurance by the development of an institution for true competitive insurance, and while even a minimum income assured to all might have been created within a liberal framework, the decision to make the whole field of social insurance a government monopoly, and to turn the whole apparatus erected for that purpose into a great machinery for the redistribution of incomes, led to a progressive growth of the government controlled sector of the economy and to a steady dwindling of the part of the economy in which liberal principles still prevail.

15. Positive tasks of liberal legislation

Traditional liberal doctrine, however, not only failed to cope adequately with new problems, but also never developed a sufficiently clear programme for the development of a legal framework designed to preserve an effective market order. If the free enterprise system is to work beneficially, it is not sufficient that the laws satisfy the negative criteria sketched earlier. It is also necessary that their

positive content be such as to make the market mechanism operate satisfactorily. This requires in particular rules which favour the preservation of competition and restrain, so far as possible, the development of monopolistic positions. These problems were somewhat neglected by nineteenth-century liberal doctrine and were examined systematically only more recently by some of the 'neo-liberal' groups.

It is probable, however, that in the field of enterprise monopoly would never have become a serious problem if government had not assisted its development by tariffs, certain features of the law of corporations and of the law of industrial patents. It is an open question whether, beyond giving the legal framework such a character that it will favour competition, specific measures to combat monopoly are necessary or desirable. If they are, the ancient common law prohibition of conspiracies in restraint of trade might have provided a foundation for such a development which, however, remained long unused. Only comparatively lately, beginning with the Sherman Act of 1890 in the USA, and in Europe mostly only after the Second World War, were attempts made at a deliberate anti-trust and anti-cartel legislation which, because of the discretionary powers which they usually conferred on administrative agencies, were not wholly reconcilable with classical liberal ideals.

The field, however, in which the failure to apply liberal principles led to developments which increasingly impeded the functioning of the market order, is that of the monopoly of organized labour or of the trade unions. Classical liberalism had supported the demands of the workers for 'freedom of association', and perhaps for this reason later failed effectively to oppose the development of labour unions into institutions privileged by law to use coercion in a manner not permitted to anybody else. It is this position of the labour unions which has made the market mechanism for the determination of wages largely inoperative, and it is more than doubtful whether a market economy can be preserved if the competitive determination of prices is not also applied to wages. The question whether the market order will continue to exist or whether it will be replaced by a centrally planned economic system may well depend on whether it will prove possible in some manner to restore a competitive labour market.

The effects of these developments show themselves already in the manner in which they have influenced government action in the

second main field in which it is generally believed that a functioning market order requires positive government action: the provision of a stable monetary system. While classical liberalism assumed that the gold standard provided an automatic mechanism for the regulation of the supply of money and credit which would be adequate to secure a functioning market order, the historical developments have in fact produced a credit structure which has become to a high degree dependent on the deliberate regulation by a central authority. This control, which for some time had been placed in the hands of independent central banks, has in recent times been in effect transferred to governments, largely because budgetary policy has been made one of the chief instruments of monetary control. Governments have thus become responsible for determining one of the essential conditions on which the working of the market mechanism depends.

In this position governments in all Western countries have been forced, in order to secure adequate employment at the wages driven up by trade union action, to pursue an inflationary policy which makes monetary demand rise faster than the supply of goods. They have been driven by this into an accelerating inflation which in turn they feel bound to counteract by direct controls of prices that threaten to make the market mechanism increasingly inoperative. This seems now to become the way in which, as already indicated in the historical section, the market order which is the foundation of a liberal system will be progressively destroyed.

16. Intellectual and material freedom

The political doctrines of liberalism on which this exposition has concentrated will appear to many who regard themselves as liberals as not the whole or even the most important part of their creed. As has already been indicated, the term 'liberal' has often, and particularly in recent times, been used in a sense in which it describes primarily a general attitude of mind rather than specific views about the proper functions of government. It is therefore appropriate in conclusion to return to the relation between those more general foundations of all liberal thought and the legal and economic doctrines in order to show that the latter are the necessary result of the consistent application of the ideas which led to the demand for intellectual freedom on which all the different strands of liberalism agree.

The central belief from which all liberal postulates may be said to spring is that more successful solutions of the problems of society are to be expected if we do not rely on the application of anyone's given knowledge, but encourage the interpersonal process of the exchange of opinion from which better knowledge can be expected to emerge. It is the discussion and mutual criticism of men's different opinions derived from different experiences which was assumed to facilitate the discovery of truth, or at least the best approximation to truth which could be achieved. Freedom for individual opinion was demanded precisely because every individual was regarded as fallible, and the discovery of the best knowledge was expected only from that continuous testing of all beliefs which free discussion secured. Or, to put this differently, it was not so much from the power of individual reason (which the genuine liberals distrusted), as from the results of the interpersonal process of discussion and criticism, that a progressive advance towards the truth was expected. Even the growth of individual reason and knowledge is regarded as possible only in so far as the individual is part of this process.

That the advance of knowledge, or progress, which intellectual freedom secured, and the consequent increased power of men to achieve their aims, was eminently desirable, was one of the unquestioned presuppositions of the liberal creed. It is sometimes alleged, not quite justly, that its stress was entirely on material progress. Though it is true that it expected the solution of most problems from the advance of scientific and technological knowledge, it combined with this a somewhat uncritical, though probably empirically justified, belief that freedom would also bring progress in the moral sphere; it seems at least true that during periods of advancing civilization moral views often came to be more widely accepted which in earlier periods had been only imperfectly or partially recognized. (It is perhaps more doubtful whether the rapid intellectual advance that freedom produced also led to a growth of aesthetic susceptibilities; but liberal doctrine never claimed any influence in this respect.)

All the arguments in support of intellectual freedom also apply, however, to the case for the freedom of doing things, or freedom of action. The varied experiences which lead to the differences of opinion from which intellectual growth originates are in turn the result of the different actions taken by different people in different circumstances. As in the intellectual so in the material sphere,

competition is the most effective discovery procedure which will lead to the finding of better ways for the pursuit of human aims. Only when a great many different ways of doing things can be tried will there exist such a variety of individual experience, knowledge and skills, that a continuous selection of the most successful will lead to steady improvement. As action is the main source of the individual knowledge on which the social process of the advance of knowledge is based, the case for the freedom of action is as strong as the case for freedom of opinion. And in a modern society based on the division of labour and the market, most of the new forms of action arise in the economic field.

There is, however, yet another reason why freedom of action, especially in the economic field that is so often represented as being of minor importance, is in fact as important as the freedom of the mind. If it is the mind which chooses the ends of human action, their realization depends on the availability of the required means, and any economic control which gives power over the means also gives power over the ends. There can be no freedom of the press if the instruments of printing are under the control of government, no freedom of assembly if the needed rooms are so controlled, no freedom of movement if the means of transport are a government monopoly, etc. This is the reason why governmental direction of all economic activity, often undertaken in the vain hope of providing more ample means for all purposes, has invariably brought severe restrictions of the ends which the individuals can pursue. It is probably the most significant lesson of the political developments of the twentieth century that control of the material part of life has given government, in what we have learnt to call totalitarian systems, far-reaching powers over the intellectual life. It is the multiplicity of different and independent agencies prepared to supply the means which enables us to choose the ends which we will pursue.

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CHAPTER TEN

*Whither Democracy?**

I

The concept of democracy has one meaning – I believe the true and original meaning – for which I hold it a high value well worth fighting for. Democracy has not proved to be a certain protection against tyranny and oppression, as once it was hoped. Nevertheless, as a convention which enables any majority to rid itself of a government it does not like, democracy is of inestimable value.

For this reason I am more and more disquieted by the growing loss of faith in democracy among thinking people. This can no longer be overlooked. It is becoming serious just as – and perhaps partly because – the magic word democracy has become so all-powerful that all the inherited limitations on governmental power are breaking down before it. Sometimes it seems as if the sum of demands which are now everywhere advanced in the name of democracy have so alarmed even just and reasonable people that a serious reaction against democracy, as such, is a real danger. Yet it is not the basic conception of democracy, but additional connotations which have in the course of time been added to the original meaning of a particular kind of decision-making procedure, which now endanger the belief in a democracy so enlarged in content. What is happening is indeed precisely that which some had apprehended concerning democracy in the nineteenth century. A wholesome method of arriving at widely acceptable political decisions has become the pretext for enforcing substantially egalitarian aims.

The advent of democracy in the last century brought a decisive change in the range of governmental powers. For centuries efforts had been directed towards limiting the powers of government; and the

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gradual development of constitutions served no other purpose than this. Suddenly it was believed that the control of government by elected representatives of the majority made any other checks on the powers of government unnecessary, so that all the various constitutional safeguards which had been developed in the course of time could be dispensed with.

Thus arose unlimited democracy – and it is unlimited democracy, not just democracy, which is the problem of today. All democracy that we know today in the West is more or less unlimited democracy. It is important to remember that, if the peculiar institutions of the unlimited democracy we have today should ultimately prove a failure, this need not mean that democracy itself was a mistake, but only that we tried it in the wrong way. While personally I believe that democratic decision on all issues on which there is general agreement that some government action is necessary is an indispensable method of peaceful change, I also feel that a form of government in which any temporary majority can decide that any matter it likes should be regarded as ‘common affairs’ subject to its control is an abomination.

2

The greatest and most important limitation upon the powers of democracy, which was swept away by the rise of an omnipotent representative assembly, was the principle of the ‘separation of powers’. We shall see that the root of the trouble is that so-called ‘legislatures’, which the early theorists of representative government (and particularly John Locke) conceived to be limited to making laws in a very specific narrow sense of that word, have become omnipotent governmental bodies. The old ideal of the ‘Rule of Law’, or of ‘Government under the Law’, has thereby been destroyed. The ‘sovereign’ Parliament can do whatever the representatives of the majority find expedient to do in order to retain majority support.

But to call ‘law’ everything that the elected representatives of the majority resolve, and to describe as ‘Government under the Law’ all the directives issued by them – however discriminating in favour of, or to the detriment of, some groups of individuals – is a very bad joke. It is in truth lawless government. It is a mere play on words to maintain that, so long as a majority approves of acts of government, the rule of law is preserved. The rule of law was regarded as a safeguard of individual freedom, because it meant that coercion was

permissible only to enforce obedience to general rules of individual conduct equally applicable to all, in an unknown number of future instances. Arbitrary oppression – that is coercion undefined by any rule by the representatives of the majority – is no better than arbitrary action by any other ruler. Whether it requires that some hated person should be boiled and quartered, or that his property should be taken from him, comes in this respect to the same thing. Although there is good reason for preferring limited democratic government to a non-democratic one, I must confess to preferring non-democratic government under the law to unlimited (and therefore essentially lawless) democratic government. Government under the law seems to me to be the higher value, which it was once hoped that democratic watch-dogs would preserve.

I believe indeed that the suggestion of a reform, to which my critique of the present institutions of democracy will lead, would result in a truer realisation of the common *opinion* of the majority of citizens than the present arrangements for the gratification of the *will* of the separate interest groups which add up to a majority.

It is not suggested that the democratic claim of the elected representatives of the people to have a decisive word in the direction of government is any less strong than their claim to determine what the law shall be. The great tragedy of the historical development is that these two distinct powers were placed in the hands of one and the same assembly, and that government consequently ceased to be subject to law. The triumphant claim of the British Parliament to have become sovereign, and so able to govern subject to no law, may prove to have been the death-knell of both individual freedom and democracy.

3

This development may have been historically unavoidable. Certainly, it is not logically cogent. It is not difficult to imagine how development could have taken place along different lines. When in the eighteenth century the House of Commons successfully claimed exclusive power over the public purse, in effect it thereby gained exclusive control of government. If at this time the House of Lords had been in a position to concede this only on condition that the development of *the* law (that is, the private and criminal law which limits the powers of all government) should be exclusively *its* concern – a development not unnatural with the House of Lords

being the highest court of law – such a division between a governmental and a legislative assembly might have been achieved and a restraint of government by law preserved. Politically, however, it was impossible to confer such legislative power on the representatives of a privileged class.

Prevailing forms of democracy, in which the sovereign representative assembly at one and the same time makes law and directs government, owe their authority to a delusion. This is the pious belief that such a democratic government will carry out the will of the people. It may be true of democratically elected legislatures in the strict sense of makers of law, in the original sense of the term. That is, it may be true of elected assemblies whose power is limited to laying down universal rules of just conduct, designed to delimit against each other the domains of control over individuals, and intended to apply to an unknown number of future instances. About such rules governing individual conduct, which prevent conflicts most people may find themselves in at either end, a community is likely to form a predominant *opinion*, and agreement is likely to exist among the representatives of a majority. An assembly with such a definite limited task is therefore likely to reflect the *opinion* of the majority – and, being concerned only with general rules, has little occasion to reflect the *will* of particular interests on specific matters.

But the giving of *laws* in this classic sense of the word is the least part of the tasks of the assemblies which we still call 'legislatures'. Their main concern is government. For 'lawyers' law', as an acute observer of the British Parliament wrote more than seventy years ago, 'parliament has neither time nor taste'. So much indeed are activities, character and procedures of representative assemblies everywhere determined by their governmental tasks that their name 'legislature' no longer derives from their making laws. The relation has rather been reversed. We now call practically every resolution of these assemblies laws, solely because they derive from a legislature – however little they may have that character of a commitment to a general rule of just conduct, to the enforcement of which the coercive powers of government were supposed to be limited in a free society.

But as every resolution of this sovereign governmental authority has 'the force of law', its governmental actions are also not limited by

law. Nor can they, and this is even more serious, still claim to be authorised by the opinion of a majority of the people. In fact, grounds for supporting members of an omnipotent majority are wholly different from those for supporting a majority on which the actions of a true legislature rest. Voting for a limited legislator is choosing between alternative ways of securing an overall order resulting from the decisions of free individuals. Voting for a member of a body with power to confer special benefits, without being itself bound by general rules, is something entirely different. In such a democratically elected assembly with unlimited power to confer special benefits and impose special burdens on particular groups, a majority can be formed only by buying the support of numerous special interests, through granting them such benefits at the expense of a minority.

It is easy to threaten to withhold support even of general laws one approves of unless one's votes are paid for by special concessions to one's group. In an omnipotent assembly, decisions therefore rest on a sanctioned process of blackmail and corruption. This has long been a recognised part of the system, from which even the best cannot escape.

Such decisions on favours for particular groups have little to do with any agreement by the majority about the substance of governmental action, since in most respects the members of the majority will know little more than that they have conferred on some agency ill-defined powers to achieve some ill-defined objective. With regard to most measures, the majority of voters will have no reason to be for or against them, except that they know that in return for supporting those who advocate them, they are promised the satisfaction of some wishes of their own. It is the result of this bargaining process which is dignified as the 'will of the majority'.

What we call 'legislatures' are in fact bodies continually deciding on particular measures, and are authorising coercion for their execution, on which no genuine agreement among a majority exists, but for which the support of a majority has been obtained by *deals*. In an omnipotent assembly which is concerned mainly with particulars and not with principles, majorities are therefore not based on agreement of opinions, but are formed by aggregations of special interests mutually assisting each other.

The apparently paradoxical fact is that a nominally all-powerful assembly – whose authority is not limited to, or rests on its committing itself to, general rules – is necessarily exceedingly weak and

wholly dependent on the support of those splinter groups which are bound to hold out for gifts which are at the government's command. The picture of the majority of such an assembly united by common moral convictions evaluating the merits of the claims of particular groups is of course a fantasy. It is a majority only because it has pledged itself not to a principle but to satisfying particular claims. The sovereign assembly is anything but sovereign in the use of its unlimited powers. It is rather quaint that the fact that 'all modern democracies' have found this or that necessary is sometimes quoted as proof of the desirability or equity of some measure. Most members of the majority often knew that a measure was stupid and unfair, but they had to consent to it, in order to remain members of a majority.

5

An unlimited legislature which is not prevented by convention or constitutional provisions from decreeing aimed and discriminatory measures of coercion, such as tariffs or taxes or subsidies, cannot avoid acting in such an unprincipled manner. Although attempts are inevitably made to disguise this purchase of support as beneficial assistance to the deserving, the moral pretence can hardly be taken seriously. Agreement of a majority on how to distribute the spoils it can extort from a dissenting minority can hardly claim any moral sanction for its proceedings – even if it invokes the figment of 'social justice' to defend it. What happens is that *political necessity created by the existing institutional set-up produces non-viable or even destructive moral beliefs.*

Agreement by the majority on sharing the booty gained by overwhelming a minority of fellow citizens, or deciding how much is to be taken from them, is not democracy. At least it is not that ideal of democracy which has any moral justification. Democracy itself is not egalitarianism. But unlimited democracy is bound to become egalitarian.

With regard to the fundamental immorality of all egalitarianism I will here point only to the fact that all our morals rest on the different esteem in which we hold people according to the manner in which they conduct themselves. While equality before the law – the treatment of all by government according to the same rules – appears to me to be an essential condition of individual freedom, that different treatment which is necessary in order to place people who

are individually very different into the same material position seems to me not only incompatible with personal freedom, but highly immoral. But this is the kind of immorality towards which unlimited democracy is moving.

To repeat, it is not democracy but unlimited democracy which I regard as no better than any other unlimited government. The fatal error which gave the elected representative assembly unlimited powers is the superstition that a supreme authority must in its very nature be unlimited, because any limitation would presuppose another will above it, in which case it would not be a supreme power. But this is a misunderstanding deriving from the totalitarian-positivist conceptions of Francis Bacon and Thomas Hobbes, or the constructivism of Cartesian Rationalism, which fortunately in the Anglo-Saxon world was at least for a long time held back by the deeper understanding of Sir Edward Coke, Matthew Hale, John Locke and the Old Whigs.

In this respect the ancients were indeed often wiser than modern constructivistic thinking. A highest power need not be an unlimited power but may owe its authority to its commitment to general rules approved by public opinion. The judge-king of early times was not selected in order that whatever he said was to be right, but because, and so long as, what he pronounced was generally felt to be right. He was not the source but merely the interpreter of a law which rested on a diffused opinion, but which could lead to action only if articulated by the approved authority. And if the supreme authority alone could order action, it extended only so far as it had the support of the general assent to the principles on which it acted. The only and highest authority entitled to take decisions on common action might well be a limited authority – limited to decisions by which it committed itself to a general rule of which public opinion approved.

The secret of decent government is precisely that the supreme power must be limited power – a power that can lay down rules limiting all other power – and which thus can restrain but not command the private citizen. All other authority rests thus on its commitment to rules which its subjects recognise: what makes a community is the common recognition of the same rules.

Thus the elected supreme body need not have any other power than that of making laws in the classical sense of general rules guiding individual conduct. Nor need there be any power of coercing private citizens other than that of enforcing obedience to the rules of

conduct thus laid down. Other branches of government, including an elected governmental assembly, should be bound and limited by the laws of the assembly confined to true legislation. These are the requirements that would secure genuine government under the law.

6

Solution of the problem, as I have already suggested, seems to be to divide the truly legislative from the governmental tasks between distinct legislative and governmental assemblies. Naturally, little would be gained by merely having two such assemblies of essentially the present character, and merely charged with different tasks. Not only would two assemblies of essentially the same composition inevitably act in collusion, and thereby produce much the same sort of results as the existing assemblies. The character, procedures and composition of these have also been determined so completely by their predominant governmental tasks as to make them little suited for legislation proper.

Nothing is more illuminating in this respect than that the eighteenth-century theorists of representative government almost unanimously condemned an organisation of what they conceived as the legislature on party lines. They usually spoke of 'factions'. But their predominant concern with governmental matters made their organisation on party lines universally necessary. A government, to perform its tasks successfully, needs the support of an organised majority committed to a programme of action. And to give the people an option, there must be a similarly organised opposition capable of forming an alternative government.

For their strictly governmental functions, existing 'legislatures' appear to have become fairly well adapted and might well be allowed to continue in their present form, if their power over the private citizen were limited by a law laid down by another democratic assembly, which the former could not alter. It would, in effect, administer the material and personal resources placed at the disposal of government to enable it to render various services to the citizens at large. It might also determine the aggregate amount of revenue to be raised from the citizens each year to finance those services. But the determination of the share each citizen would be compelled to contribute to this total would have to be made by a true law; that is, the sort of obligatory and uniform rule of individual

conduct which only the legislative assembly could lay down. It is difficult to conceive of a more salutary control of expenditure than such a system in which every member of the governmental assembly would know that to every expenditure he supported he and his constituents would have to contribute at a rate he could not alter!

The critical issue then becomes the composition of the legislative assembly. How can we at the same time make it truly representative of general opinion about what is right, and yet make it immune from any pressure of special interests? The legislative assembly constitutionally would be limited to passing general laws, so that any specific or discriminating order it issued would be invalid. It would owe its authority to its commitment to general rules. The constitution would define the properties such a rule must possess to be valid law, such as applicability to an unknown number of future instances, uniformity, generality, and so on. A constitutional court would gradually have to elaborate that definition as well as decide any conflict of competence between the two assemblies.

But this limitation to passing genuine laws would hardly suffice to prevent collusion of the legislative with a similarly composed governmental assembly, for which it would be likely to provide the laws which that assembly needed for its particular purposes, with results little different from those of the present system. What we want in the legislative assembly is clearly a body representing general opinion, and not particular interests; and it should therefore be composed of individuals who, once entrusted with this task, are independent from the support of any particular group. It should also consist of men and women who could take a long-term view, and would not be swayed by the temporary passions and fashions of a fickle multitude which they had to please.

7

This would seem to require, in the first instance, independence of parties, and this could be secured by the second, independently necessary condition – namely, not being influenced by the desire for re-election. I imagine for this reason a body of men and women who, after having gained reputation and trust in the ordinary pursuits of life, were elected for a single long period of something like 15 years. To assure that they had gained sufficient experience and respect, and that they did not have to be concerned about securing a livelihood

for the period after the end of their tenure, I would fix the age of election comparatively high, say at 45 years, and assure them for another 10 years after expiry of their mandate at 60 of some dignified posts as lay-judges or the like. The average age of the member of such an assembly would, at less than 53 years, still be lower than that of most comparable assemblies today.

The assembly would of course not be elected as a whole at one date, but every year those who had served their 15 years' period would be replaced by 45-year-olds. I would favour these annual elections of one-fifteenth of the membership to be made by their contemporaries, so that every citizen would vote only once in his life, in his forty-fifth year, for one of his contemporaries to become a legislator. This seems to me desirable not only because of old experience in military and similar organisations that contemporaries are usually the best judges of a man's character and abilities, but also because it would probably become the occasion of the growth of such institutions as local age clubs which would make elections on the basis of personal knowledge possible.

Since there would be no parties, there would of course be no nonsense about proportional representation. Contemporaries of a region would confer the distinction as a sort of prize for the most admired member of the class. There are many other fascinating questions which an arrangement of this sort raises, such as whether for this purpose some sort of indirect election might not be preferable (with the local clubs vying for the honour of one of their delegates being elected representative), but which it would not be appropriate to consider in an exposition of the general principle.

8

I do not think experienced politicians will find my description of the procedure in our present legislatures very wrong, though they will probably regard as inevitable and beneficial what to me seems avoidable and harmful. But they ought not to be offended by hearing it described as institutionalised blackmail and corruption, because it is we who maintain institutions which make it necessary for them thus to act if they are to be able to do any good.

To a certain extent the bargaining I have described is probably in fact inevitable in democratic *government*.

What I object to is that the prevailing institutions carry this into that supreme body which ought to make the rules of the game and

restrain government. The misfortune is not that those kinds of things happen – in local administration they can probably not be avoided – but that they happen in that supreme body that has to make our laws, which are supposed to protect us against oppression and arbitrariness.

One further important and very desirable effect of separating the legislative from the governmental power would be that it would eliminate the chief cause of the accelerating centralisation and concentration of power. This is today the result of the fact that, as a consequence of the fusion of the legislative and the governmental power in the same assembly, it possesses powers which in a free society no authority should possess. Of course, more and more governmental tasks are pushed up to that body which can meet particular demands by making special laws for the purpose. If the powers of the central government were no greater than those of the regional or local governments, only those matters where a uniform national regulation would seem advantageous to all would be handled by the central government, and much that is now so handled would be devolved to lower units.

Once it is generally recognised that government under the law and unlimited powers of the representatives of the majority are irreconcilable, and all government is equally placed under the law, little more than external relations need to be entrusted to central *government* – as distinct from legislation – and the regional and local governments, limited by the same uniform laws with regard to the manner in which they could make their individual inhabitants contribute to their revenue, would develop into business-like corporations competing with each other for citizens who could vote with their feet for that corporation which offered them the highest benefits compared with the price charged.

In this manner we may still be able to preserve democracy and at the same time stop the drift towards what has been called 'totalitarian democracy', which to many people already appears irresistible.

PART THREE

Economics

CHAPTER ELEVEN

*Three Elucidations of the Ricardo Effect**

The immediate aim of this paper is to clear up a point on which Sir John Hicks in his recent review (1967, chapter xii) of my earlier discussions (1931, 1939, 1942)¹ of the relation between the demand for consumer goods and investment, is in error. It deserves careful analysis, as I believe he has been misled into this error by an erroneous assumption characteristic of much contemporary reasoning on this and similar subjects. I will attempt such an analysis in part 2 of this paper. But, as the general thesis of what I have called the 'Ricardo Effect'² may not now be familiar to all readers, I shall first restate it in a manner which, though not wholly unobjectionable, I have often found to be more readily intelligible than the more precise statement I have given on earlier occasions. In part 3 I shall answer another objection to my analysis. It was frequently raised during the earlier discussions, and I was not then able to supply a satisfactory answer. Now, however, it appears to me comparatively easy to refute.

I

The theorem called the Ricardo Effect asserts that in conditions of full employment an increase in the demand for consumer goods will

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¹ Since a rightly esteemed recent study of the development of economic doctrines asserts that my discussion of the Ricardo Effect in two of my publications (1939, 1942) involves a reversal of the position taken in *Prices and Production* (1931), it should be said that they are, of course, different statements of the same basic contention. Sir John's criticism refers mainly to the earlier version.

² I chose this name because J. A. Schumpeter (1939, pp. 345, 812, 814) had referred to a more general and even less original aspect of my theory as the 'Hayek Effect,' and I did not wish what I regarded as an old-established doctrine to be regarded as an innovation.

produce a decrease of investment, and vice versa. The manner in which this result is produced can be conveniently represented in a diagram corresponding to the familiar representations of the production function. In this diagram, however, the total *stock* (fixed and circulating) of capital is measured, on the abscissa; and the total *stream* of input, including all that is required to maintain the stock of capital at the level most profitable in the circumstances, is measured on the ordinate. We shall assume for the present purposes that this production function is linear and homogeneous. Since the magnitudes represented along the two co-ordinates both consist of variable combinations of heterogeneous goods and services, these can of course be represented only in value terms. This would be strictly legitimate only if we could assume that the prices of the various goods and services involved remain constant. In fact, however, the changes which we will consider necessarily involve some changes in the relation between these prices. Hence the slightly unsatisfactory nature of this technique, to which I have referred before, derives. It seems to me, however, that this defect is of comparatively minor significance and does not seriously detract from the validity of the conclusions which can be derived in a comparatively simple manner by these methods. Readers who wish to see a more exact demonstration will have to refer to my 1942 article. But for the present purposes, I trust that this simplified exposition will suffice. I have long found it effective in teaching, but because of this defect, have refrained from putting it into print.

The effect I want to consider is that of a change in the prices of the product relative to the prices of the factors, and I shall primarily consider the case in which the former rise while the latter remain unchanged. I shall at first assume that the intention of the producer is to produce a given quantity of output and to maximize the percentage return on the capital employed. On these assumptions, we will ask which of the various possible combinations of stock of capital and current input the producer will find most advantageous to use in producing this particular quantity of output. Let us consider for this purpose the lower isoquant drawn in Figure 11.1 and assume that, before the price of the product rises, it stands at a figure which would bring an amount of receipts for the total output which, since it is also accruing at a time rate, we can measure along the ordinate on which we measure current input. Assume these receipts at the initial price to be *OF*.

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What will then be the most profitable combination of stock of capital and current input to produce this given output? Evidently this will be the point on the isoquant at which a straight line drawn from F just touches it, that is, the point P . Here the slope of the line connecting F with a point on the isoquant is steeper than for any other point on this curve; this means that the proportional profits EF/OC are higher than at any other point.

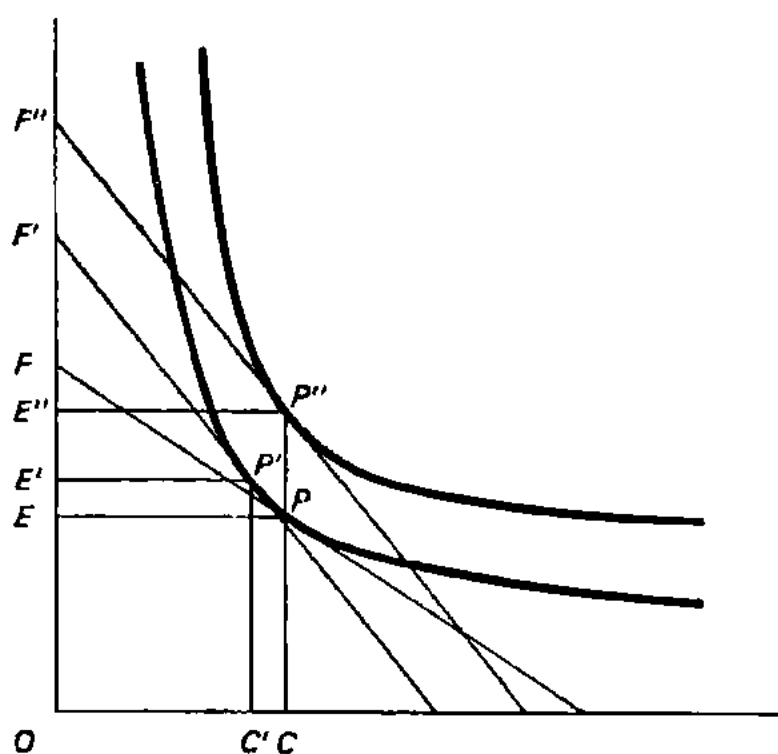


Figure 11.1

Assume now that the price of the product rises from F to F' . The result must be that the point of tangency of a line drawn from F' will lie to the left and above P and that this point P' will correspond to a combination of a smaller stock of capital, C' , and a larger amount of current input, E' , than were used before.

This is the chief conclusion for the case in which the aim is to produce a constant output. We will examine what this conclusion implies before we extend it to the case in which the producer intends to use all his capital in the production of the commodity in question and tries to produce from it as much as he most profitably can with all his available capital (and assuming, as we shall throughout, that he faces a horizontal demand curve for his product). The conclusion means, in the first instance, that, though the total outlay in

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production will have increased, it will increase proportionally less than receipts: the share of profits in the total will grow. In addition to this, the distribution of current outlay between current cost of production and the maintenance of capital stock will also change: a larger proportion will go to the former and a smaller proportion to the latter. Precisely where we draw the line between the part of this total outlay we call current costs and that which we call (gross) investment is always to some degree arbitrary. But wherever we draw this line, it is clear that the share of investment in the total must fall and that, if we define investment sufficiently narrowly, the absolute amount of investment must also fall: the demand for certain kinds of highly labor-saving or very durable equipment will be reduced. This is necessarily implied by the transition from a more to a less capital-intensive method of production. The chief point, that an increase in the demand for consumer goods will lead (in conditions of full employment) to a decrease in the demand for the kind of investment goods appropriate only to more highly capital-intensive methods of production, is thus established.

The same conclusion follows if, after the rise in the prices of consumer goods, we assume that the producer, instead of aiming at producing the same quantity of output as before, will aim at producing as much as will bring him the highest return on the amount of capital employed before. This is readily seen if we continue the line CP upward until it intersects a higher isoquant at a point P'' where its tangent is parallel to that at P' . The price for this quantity of output will be OF'' . The current input required for producing OF'' will be OE'' , with $E''F''$ representing the maximum amount of profit obtainable at this price by combining a larger input with the given total quantity of capital. But this unchanged total quantity of capital will again have to consist of less labor-saving or less durable equipment than before: the demand for the more labor-saving or more durable kinds of equipment will therefore fall.

It is not necessary to show explicitly that in the opposite case, of a fall in the price of the product with factor prices remaining constant, a corresponding transition from more to less capital-intensive methods will take place.

This basic proposition of the Ricardo Effect is, of course, as much a part of the elementary theory of capital as it is important for the

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understanding of industrial fluctuations. It shows how changes in the demand for consumer goods will affect the rate of investment through a change in the relative prices of products and factors of production (or, more simply, through a change in 'real wages') and will lead to such a change in the rate of investment even if there is no lending of money and therefore no market rate of interest for money loans. The 'scarcity of capital' will in this case express itself only in the relation among the prices of the goods belonging to the different stages of production (or what in *Prices and Production* (1939, 2d ed., pp. 72-80) I called the 'price margins' between stages of production).

The chief significance of the proposition arises, however, in connection with a money economy in which the equilibrium structure of prices determined solely by the 'real' factors may be distorted for prolonged periods by continuing changes in the quantity of money, producing a difference between what is saved out of current income and what is spent on investment. If some of the money that is received as income and not spent on consumer goods is not invested but hoarded or otherwise withdrawn from circulation, or if investment is fed in excess of the amount of saving, by additional money created for the purpose, or is released from cash balances, a persistent alteration of the price structure will be produced which will continue to exist and to determine the rate of investment, as long as the *change* in the volume of the money stream persists.

It is at this point that Sir John Hicks's criticism comes in. He maintains that such a distortion of the price structure can only be of a very transient character and that, even though the change in the volume of the money stream continues, there must be a determined time interval, or 'lag,' after which relative prices will return to the equilibrium position determined solely by the real factors. This contention appears to me wholly unfounded and erroneous. It seems to me that it can be shown that there can be no such determined lag after which the price structure will resume the equilibrium position depending only on the real factors. On the contrary, as long as the change in the volume of the money stream continues, there will persist a different position, a sort of steady state (as the biologists call such a 'fluid equilibrium'), determined by the continuing inflow or outflow of money into the system.

The crucial contentions are stated by Sir John (1967, p. 206) in a single paragraph of his exposition. For the convenience of the reader, I will reproduce here most of this paragraph, with Sir John's own

italics rendered in small capitals and the parts to which I specially want to draw attention in italics:

When the market rate of interest is reduced below the natural rate, what will happen to the QUANTITIES of inputs and outputs? The correct answer, on these assumptions, is very simple: The effect will be nil. *Prices will rise uniformly*; and that is that. When the Wicksell model is taken strictly (as it was taken strictly), it is in NEUTRAL EQUILIBRIUM. The whole REAL system, of quantities and of RELATIVE prices, is completely determined by the supply and demand equations in the particular markets; in this REAL system THE rate of interest is included. There can only be one rate of interest when the markets are in equilibrium; a market rate that is equal to the natural rate. The 'reduction' of the market rate below the natural rate must therefore be regarded as a disequilibrium phenomenon; *a phenomenon that can only persist while the markets are out of equilibrium*. As soon as equilibrium is restored, equality between the market rate and natural rate must be restored. Thus there is *no room for a discrepancy* between market rate and natural rate *if there is instantaneous adjustment of prices* [to what? – the 'real' data only?]. Money prices will simply rise UNIFORMLY; and that is that.

The conception of equilibrium implied in this passage is that of a structure of relative prices determined only by the real factors (that is, excluding the effects of any continuing monetary change), a structure which will restore itself promptly after being disturbed by the first impact of a monetary change, even while the change itself (inflow or outflow of money into or out of the system) still continues. That is, even if part of the investment is continuously financed by money created for the purpose (or in the reverse case), the price structure is presumed to return to the position it had before this happened. In other words, the continuing inflow or outflow of money is not considered part of the data to which the price structure will remain adapted as long as this condition persists, but apparently as affecting the price structure only temporarily when the change first occurs and as rapidly disappearing although the changed condition persists. My contention is that this 'disequilibrium' is an adjustment to a new datum, the inflow of new money, and must continue as long as these additions to the money stream continue to

enter the system at a given point and at a constant percentage rate.

Sir John does not say explicitly whether he is arguing in terms of a single addition to the quantity of money taking place during a short period or of a protracted process of this kind extending over many months or even years. It will be useful to analyze these cases in turn. We will assume first that a single dose of additional money is spent in the course of a single month on a part of the investment activities which amounts to 1 per cent of all expenditure on goods and services, and that this doubles the amount spent on those particular goods and services on which it is spent in the first instance. This will mean that the total money stream also increases by 1 per cent. It will simplify the exposition if we further assume that the transaction velocity of money is twelve times per year (cash balances equal to monthly expenditure), in which case the increase of the expenditure by 1 per cent in the course of one month will also mean a 1 per cent increase in the quantity of money.

What will, in consequence, happen to prices? The aim of the extra expenditure is to attract more factors to the production of the investment goods in question; this, in conditions of full employment, can be achieved only by driving up their prices. How much their prices will rise will depend on the elasticity of their supply. The particular figures we assume for the purposes of illustration do not matter. To keep the figures as simple as possible, we shall assume that a doubling of the demand brings forth a 60 per cent increase of the supply at a price raised by 25 per cent.

This rise of some (and a very small part of all) prices by 25 per cent will have been produced by an increase in the money stream (and, on our assumptions, also of the stock of money) of 1 per cent. Of course, if the expenditure of the additional money on investment were a single nonrecurrent event, confined to a single month, the effects would be of a transient character. The money received by the producers of the investment goods would in turn be spent by them on other goods and gradually spread throughout the system. In the end, the old structure of relative prices would be restored at a level roughly 1 per cent higher than it was originally. (We can here disregard any changes in the price structure due to a redistribution of assets and consequently of the personal distribution of incomes and the resulting changes in the direction of demand which may occur in the course of the process.) The main point is that the 25 per cent initial rise of some prices necessary to bring about the addition to real

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investment by 60 per cent will be of a wholly temporary nature and will ultimately produce a rise of all prices of only 1 per cent.

What happens, however, if the increase in the quantity of money entering through additional investment continues for a much longer period? We shall now assume that it does so, not at a constant, absolute rate, but at such a rate as is necessary to maintain the increased volume of real investment. This will mean a constant percentage increase in the total flow (and quantity) of money, because, if before it needed a 1 per cent addition to attract the additional resources to investment, after the total money stream (and general prices) will have risen by 1 per cent, it will need an increase of 1.01 per cent to produce the same effect, and so on.

This process can evidently go on indefinitely, at least as long as we neglect changes in the manner in which expectations concerning future prices are formed. Whatever the lag between the impact effect of the new expenditure on a few prices affected immediately and the spreading of this effect to any other prices, the distortion of the 'equilibrium' price structure corresponding to the 'real' data only must continue to exist. The extra demand which continually enters in the form of newly created money remains one of the constant data determining a price structure adjusted to this demand. However short the lag between one price change and the effect of the expenditure of the increased receipts on other prices, and as long as the process of change in the total money stream continues, the changed relationship between particular prices will also be preserved.

In other words, the order in which the additional money expenditure reaches the different goods will determine a gradient in the whole price structure which must continue to exist as long as the total money stream continues to increase. Indeed, the prices affected later never will catch up with those affected first. When the influx of money, which is the cause of the rise in prices, stops, the prices which have risen first must actually fall – of course not to the original level, but to somewhere near the new average level that will establish itself after the whole additional money has distributed itself throughout the system. But some prices must continue to run ahead of the rest as long as part of the demand for them does not spring from the receipts for some previous sale of other goods or services but from money created (or released from cash balances) for that purpose. As long as the general process of a rise (or fall) of prices continues, it is impossible for the structure of relative prices to be the same as that

which would exist if the forces causing the general change of prices were absent, for the simple reason that the same cause (the change in the quantity of money) can affect the different prices only successively and not simultaneously. More investment than will take place in the state of equilibrium determined only by the real factors can take place only as long as, compared with other prices, the prices of investment goods are higher than they would be in that equilibrium. 'And that is that.'

I find it useful to illustrate the general relationship by an analogy which seems worth stating here, though Sir John (in correspondence) did not find it helpful. The effect we are discussing is rather similar to that which appears when we pour a viscous liquid, such as honey, into a vessel. There will, of course, be a tendency for it to spread to an even surface. But if the stream hits the surface at one point, a little mound will form there from which the additional matter will slowly spread outward. Even after we have stopped pouring in more, it will take some time until the even surface will be fully restored. It will, of course, not reach the height which the top of the mound had reached when the inflow stopped. But as long as we pour at a constant rate, the mound will preserve its height relative to the surrounding pool – providing a very literal illustration of what I called before a fluid equilibrium.

In connection with such phenomena, the conception of a 'lag' does not seem to be very useful. There is certainly no assignable interval of time between the first change of a price due to changes in the quantity of money and the moment when all prices have changed in the same proportion, because, unless the monetary change (the inflow or outflow of money into the system) continues, the first price change will have been partly reversed before most of the other prices are affected. Nor is the relevant change in the price structure dependent on a rapid change in the general price level. In our example, the increase in the prices of the relevant investment goods by 25 per cent was brought about by a 1 per cent increase in the quantity of money. Such an increase is surely not unlikely to occur in the course of a boom. And since it might well take many months before this effect spreads through the whole price system, it would also be some time before it becomes necessary to increase the absolute rate of increase of the money stream in order to maintain the given volume of real investment in the face of the gradual rise of the competing demand for consumer goods.

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When, however, the inflow of money through investment ceases, the spreading of its effects will continue and will tend to restore something similar to the initial position. It is at this point that the Ricardo Effect operates in a manner in which it is least understood. Prices of investment goods at this stage will fall; prices of consumer goods will, for some time, continue to rise. This will make some of the investment which has been taking place less profitable than it was before, at the same time that the flow of investable fund is reduced. The controlling factor will thus be that, after the inflow of new money has ceased and, in consequence, smaller funds are available for investment, the prices of consumer goods will continue to rise for some time. The result will be that some of the factors which during the boom will have become committed to producing very capital-intensive equipment will become unemployed.

This is the mechanism by which I conceive that, unless credit expansion is continued progressively, an inflation-fed boom must sooner or later be reversed by a decline in investment. This theory never claimed to do more than account for the upper turning point of the typical nineteenth-century business cycle. The cumulative process of contraction likely to set in once unemployment appears in the capital-good industries is another matter which must be analyzed by conventional means. It has always been an open question to me as to how long a process of continued inflation, not checked by a built-in limit on the supply of money and credit, could effectively maintain investment above the volume justified by the voluntary rate of savings. It may well be that this inevitable check only comes when inflation becomes so rampant – as the progressively higher rate of inflation required to maintain a given volume of investment must make it sooner or later – that money ceases to be an adequate accounting basis. But this cannot be further discussed without raising the problem of the effect of such changes on expectations – a problem which I do not wish to discuss here.

3

An objection which in the past has frequently been raised against my analysis of the Ricardo Effect is that, if money can be borrowed in any desired amount at the current market rate of interest, the character of the investment will be determined by this market rate, and the internal rate of return of the enterprises will be adjusted to it.

It seems to me now that this conclusion is the result of an illegitimate extension of an assumption that is reasonable enough concerning the supply of a commodity, but which cannot apply to the supply of credit or loans.

This objection against the operation of the Ricardo Effect in a money economy rests on the tacit assumption that competitive conditions require that the individual enterprises face a horizontal supply curve of loan capital and therefore can borrow, at the current market rate of interest, as much as they desire. This assumption seems to me neither to follow from the concept of perfect competition nor to be true of any real circumstances. It rests on the belief that successive loans to a given borrower can and ought to be regarded as the 'same' commodity and therefore to be available at the same price. This, however, is evidently not the case, since the risk to the lender increases with the amount of the loan to any one borrower possessing a given amount of capital or equity.

For our purposes, we may greatly oversimplify and assume that the proportion of the total indebtedness of a borrower to his equity is the only factor determining the risk to the lender. There would then exist a uniform market rate of interest at which every borrower could borrow up to say, 25 per cent of his equity. For an additional 10 per cent, he would have to pay more: for yet another 10 per cent, still more; and so on. The reason for this will be that to the lender a loan to somebody already in debt to an amount equal to 25 per cent of his equity is a different commodity from a loan to somebody who has much smaller debts. There may thus exist a perfect market for loans of each class, and every borrower who wants to increase his borrowing within this range may be able to do so at the same rate of interest; but he will, if he wants to borrow beyond this range, have to pay a higher rate.

In other words, although for every class of loan there may prevail a perfectly elastic supply at the given rate of interest, *every borrower will, after a while, be faced with a rapidly rising supply curve of loans*, because additional amounts which he may borrow must be regarded not as the same but as a different kind of commodity compared with his earlier loans. This clearly is the realistic way of looking at the position, and only the inappropriate habit of treating successive loans of a given borrower as homogeneous commodities could lead to a neglect of this obvious fact.

But if, even in a perfect credit market, we must assume that every

individual borrower is faced with a supply curve of loans which, beyond a certain point, begins to rise more and more rapidly (and probably at some point becomes almost perpendicular), we can no longer assume that the given market rate will determine the internal rates of return of the existing enterprises. There will be a long-run tendency to adjust the internal rates of return to the market rate for loans, but this will operate very slowly and largely via changes in the equity capital of the enterprises concerned and the entry of new enterprises into the industries in which the internal rates of return have changed. But in the short run, including the sort of periods with which we are concerned in the analysis of industrial fluctuations, no such adaptation of the internal rate of the return on capital to the market rate for loans can be assumed to take place generally. What will then be the position of an enterprise that finds that the price of its product has risen relative to the price of the factors (or that, as I have expressed it on earlier occasions, 'real wages' have fallen)? If it could borrow, at the unchanged market rate of interest, as much as it liked, the enterprise would, of course, wish to increase all its equipment proportionally, that is, to produce more by methods as capital-intensive as those employed before. But it will find that, at the market rate of interest, it cannot borrow anything like the amount that would be necessary for that purpose. In addition, what it can borrow at the market rate it will probably obtain only for increasing its circulating capital but not for increasing its fixed capital. The firm's internal rate of return will have greatly risen, but what it can borrow at a rate corresponding to this increased rate of internal return will be only a fraction of what it could profitably employ at that rate — certainly not enough to bring its internal rate of return down to anywhere near *the* market rate. The use it will make of the limited capital at its disposal will therefore be determined by its internal rate of return, which will be equal to the *marginal* rate at which *it* can borrow but which is likely to be considerably above what is regarded as *the* market rate. So far as it can borrow a little, its internal rate of return will of course be somewhat under the figure it would reach if the firm could not raise any additional funds at all. But the rate which will govern the nature of its investments will still be its individual internal rate, considerably above the market rate, and possibly very different for different enterprises.

Since the firm can raise little or no additional funds to increase its total investments, and since it encounters particular difficulties in

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obtaining additional funds for long-term investment, and since, at the same time the returns it can obtain from circulating capital have risen relative to those of fixed capital, it will be driven to what formerly was called a 'conversion of fixed into circulating capital,' the firm will put as little as possible of what becomes available for investment into durable equipment, or will put it into less durable or less labor-saving equipment and as much as possible into labor and raw materials.

I will not enter here into another question about which doubt has often been expressed in this connection, namely, the question of the extent to which we can assume realistically that such changes are technologically feasible in the short run. The single instance of the possibility of a change from one shift to two or three, which is only one of a very large number of similar possibilities, seems to me to be a sufficient answer. At a relatively higher rate of 'real wages,' and at the corresponding lower internal rate of return, the higher costs of labor in a second or third shift may have made the change appear unprofitable. But with the fall in 'real wages' and the consequent rise of the rate of return on short-term investment compared with that on long-term investment, the change will become profitable, and at the same time part of the existing equipment will become abundant. And what is saved on the replacement of that equipment becomes available for paying more labor. Total outlay may remain the same (or, in so far as the firm can borrow, increase a little), but more of it will be spent on labor and less on equipment.

It should be obvious from a rather elementary consideration, that there must exist some such mechanism through which, sooner or later, an increase in the demand for consumer goods leads not to an increase but to a decrease in the demand for investment goods. If it were true that an increase in the demand for consumer goods *always* leads to an increase in investment, even in a state of full employment, the consequence would be that the more urgently consumer goods are demanded the more their supply would fall off. More and more factors would be shifted to producing investment goods until, in the end, because the demand for consumer goods would have become so very urgent, no consumer goods at all would be produced. This clearly points to an absurdity in the reasoning which leads to such a conclusion. The mechanism which prevents such a result is the Ricardo Effect. And though its operation may not be obvious for a long time because of more apparent monetary

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complications, and may even be altogether suspended as long as there is general unemployment, sooner or later it must reassert itself. Sir John Hicks is right to the extent that the relationships determined by the real data only must assert themselves sooner or later. But this does not happen as instantaneously as he assumes. There may be a prolonged period during which the relations corresponding to the 'real equilibrium' are greatly distorted by monetary changes. It still seems to me that this has much to do with the phenomenon of industrial fluctuations.

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CHAPTER TWELVE

*Competition as a Discovery Procedure**

I

It is difficult to defend economists against the charge that for some 40 to 50 years they have been discussing competition on assumptions that, *if* they were true of the real world, would make it wholly uninteresting and useless. If anyone really knew all about what economic theory calls the *data*, competition would indeed be a very wasteful method of securing adjustment to these facts. It is thus not surprising that some people have been led to the conclusion that we can either wholly dispense with the market, or that its results should be used only as a first step towards securing an output of goods and services which we can then manipulate, correct, or redistribute in any manner we wish. Others, who seem to derive their conception of competition solely from modern textbooks, have not unnaturally concluded that competition does not exist.

Against this, it is salutary to remember that, *wherever* the use of competition can be rationally justified, it is on the ground that we do *not* know in advance the facts that determine the actions of competitors. In sports or in examinations, no less than in the award of government contracts or of prizes for poetry, it would clearly be pointless to arrange for competition, if we were certain beforehand who would do best. As indicated in the title of this lecture, I propose to consider competition as a procedure for the discovery of such facts as, without resort to it, would not be known to anyone, or at least would not be utilised.¹

* This lecture was originally delivered, without the present section 2, to a meeting of the Philadelphia Society at Chicago on 29 March 1968 and later, on 5 July 1968, in German, without the present final section, to the Institut für Weltwirtschaft of the University of Kiel. Only the German version has been published before, first in the series of 'Kieler Vorträge', N.S. 56, Kiel, 1968, and then reprinted in my collected essays entitled *Freiburger Studien*, Tübingen, 1969.

1 Since I wrote this my attention has been drawn to a paper by Leopold von Wiese on 'Die Konkurrenz, vorwiegend in soziologisch-systematischer Betrachtung', *Verhandlungen des 6. Deutschen Soziologentages*, 1929, where, on p. 27, he discusses the 'experimental' nature of competition.

This may at first appear so obvious and incontestable as hardly to deserve attention. Yet, some interesting consequences that are not so obvious immediately follow from the explicit formulation of the above apparent truism. One is that competition is valuable *only* because, and so far as, its results are unpredictable and on the whole different from those which anyone has, or could have, deliberately aimed at. Further, that the generally beneficial effects of competition must include disappointing or defeating some particular expectations or intentions.

Closely connected with this is an interesting methodological consequence. It goes far to account for the discredit into which the micro-economic approach to theory has fallen. Although this theory seems to me to be the only one capable of explaining the role of competition, it is no longer understood, even by some professed economists. It is therefore worthwhile to say at the outset a few words about the methodological peculiarity of any theory of competition, because it has made its conclusions suspect to many of those who habitually apply an over-simplified test to decide what they are willing to accept as scientific. The necessary consequence of the reason why we use competition is that, *in those cases in which it is interesting*, the validity of the theory can never be tested empirically. We can test it on conceptual models, and we might conceivably test it in artificially created real situations, where the facts which competition is intended to discover are already known to the observer. But in such cases it is of no practical value, so that to carry out the experiment would hardly be worth the expense. If we do not know the facts we hope to discover by means of competition, we can never ascertain how effective it has been in discovering those facts that might be discovered. All we can hope to find out is that, on the whole, societies which rely for this purpose on competition have achieved their aims more successfully than others. This is a conclusion which the history of civilisation seems eminently to have confirmed.

The peculiarity of competition – which it has in common with scientific method – is that its performance cannot be tested in particular instances where it is significant, but is shown only by the fact that the market will prevail in comparison with any alternative arrangements. The advantages of accepted scientific procedures can never be proved scientifically, but only demonstrated by the common experience that, on the whole, they are better

adapted to delivering the goods than alternative approaches.²

The difference between economic competition and the successful procedures of science consists in the fact that the former is a method of discovering particular facts relevant to the achievement of specific, temporary purposes, while science aims at the discovery of what are sometimes called 'general facts', which are regularities of events. Science concerns itself with unique, particular facts only to the extent that they help to confirm or refute theories. Because these refer to general, permanent features of the world, the discoveries of science have ample time to prove their value. In contrast, the benefits of particular facts, whose usefulness competition in the market discovers, are in a great measure transitory. So far as the theory of scientific method is concerned, it would be as easy to discredit it on the ground that it does not lead to testable predictions about what science will discover, as it is to discredit the theory of the market on the ground that it fails to predict particular results the market will achieve. This, in the nature of the case, the theory of competition cannot do in any situation in which it is sensible to employ it. As we shall see, its capacity to predict is necessarily limited to predicting the kind of pattern, or the abstract character of the order that will form itself, but does not extend to the prediction of particular facts.³

2

Having relieved myself of this pet concern, I shall return to the central subject of this lecture, by pointing out that economic theory sometimes appears at the outset to bar its way to a true appreciation of the character of the process of competition, because it starts from the assumption of a 'given' supply of scarce goods. But which goods are scarce goods, or which things are goods, and how scarce or valuable they are – these are precisely the things which competition has to discover. Provisional results from the market process at each stage alone tell individuals what to look for. Utilisation of knowledge widely dispersed in a society with extensive division

2 Cf. the interesting studies of the late Michael Polanyi in *The Logic of Liberty*, London, 1951, which show how he has been led from the study of scientific method to the study of competition in economic affairs; and see also K. R. Popper, *The Logic of Scientific Discovery*, London, 1959.

3 On the nature of 'pattern prediction' see my essay on 'The theory of complex phenomena' in *Studies in Philosophy, Politics and Economics*, London and Chicago, 1967.

of labour cannot rest on individuals knowing all the particular uses to which well-known things in their individual environment might be put. Prices direct their attention to what is worth finding out about market offers for various things and services. This means that the, in some respects always unique, combinations of individual knowledge and skills, which the market enables them to use, will not merely, or even in the first instance, be such knowledge of facts as they could list and communicate if some authority asked them to do so. The knowledge of which I speak consists rather of a capacity to find out particular circumstances, which becomes effective only if possessors of this knowledge are informed by the market which kinds of things or services are wanted, and how urgently they are wanted.⁴

This must suffice to indicate what kind of knowledge I am referring to when I call competition a discovery procedure. Much would have to be added to clothe the bare bones of this abstract statement with concrete flesh, so as to show its full practical importance. But I must be content with thus briefly indicating the absurdity of the usual procedure of starting the analysis with a situation in which all the facts are supposed to be known. This is a *state* of affairs which economic theory curiously calls 'perfect competition'. It leaves no room whatever for the *activity* called competition, which is presumed to have already done its task. However, I must hurry on to examine a question, on which there exists even more confusion – namely, the meaning of the contention that the market adjusts activities spontaneously to the facts it discovers – or the question of the purpose for which it uses this information.

The prevailing confusion here is largely due to mistakenly treating the order which the market produces as an 'economy' in the strict sense of the word, and judging results of the market process by criteria which are appropriate only to such a single organised community serving a given hierarchy of ends. But such a hierarchy of ends is not relevant to the complex structure composed of countless individual economic arrangements. The latter, unfortunately, we also describe by the same word 'economy', although it is something fundamentally different, and must be judged by different standards.

⁴ Cf. Samuel Johnson in J. Boswell, *Life of Samuel Johnson*, L. F. Powell's revision of G. B. Hill's edition, Oxford, 1934, vol. II, p. 365 (18 April 1775): 'Knowledge is of two kinds. We know a subject ourselves, or we know where we can find information about it.'

An economy, in the strict sense of the word, is an organisation or arrangement in which someone deliberately allocates resources to a unitary order of ends. Spontaneous order produced by the market is nothing of the kind; and in important respects it does not behave like an economy proper. In particular, such spontaneous order differs because it does *not* ensure that what general opinion regards as more important needs are always satisfied before the less important ones. This is the chief reason why people object to it. Indeed, the whole of socialism is nothing but a demand that the market order (or catallaxy, as I like to call it, to prevent confusion with an economy proper)⁵ should be turned into an economy in the strict sense, in which a common scale of importance determines which of the various needs are to be satisfied, and which are not to be satisfied.

The trouble with this socialist aim is a double one. As is true of every deliberate organisation, only the knowledge of the organiser can enter into the design of the economy proper, and all the members of such an economy, conceived as a deliberate organisation, must be guided in their actions by the unitary hierarchy of ends which it serves. On the other hand, advantages of the spontaneous order of the market, or the catallaxy, are correspondingly two. Knowledge that is used in it is that of all its members. Ends that it serves are the separate ends of those individuals, in all their variety and contrariness.

Out of this fact arise certain intellectual difficulties which worry not only socialists, but all economists who want to assess the accomplishments of the market order; because, if the market order does not serve a definite order of ends, indeed if, like any spontaneously formed order, it cannot legitimately be said to *have* particular ends, it is also not possible to express the value of the results as a sum of its particular individual products. What, then, do we mean when we claim that the market order produces in some sense a maximum or optimum?

The fact is, that, though the existence of a spontaneous order not made for a particular purpose cannot be properly said to have a purpose, it may yet be highly conducive to the achievement of many different individual purposes not known as a whole to any single person, or relatively small group of persons. Indeed, rational action is

⁵ For a fuller discussion see now my *Law, Legislation and Liberty*, vol. II, *The Mirage of Social Justice*, London and Chicago, 1976, pp. 107-20.

possible only in a fairly orderly world. Therefore it clearly makes sense to try to produce conditions under which the chances for any individual taken at random to achieve his ends as effectively as possible will be very high – even if it cannot be predicted which particular aims will be favoured, and which not.

As we have seen, the results of a discovery procedure are in their nature unpredictable; and all we can expect from the adoption of an effective discovery procedure is to improve the chances for unknown people. The only common aim which we can pursue by the choice of this technique of ordering social affairs is the general kind of pattern, or the abstract character, of the order that will form itself.

3

Economists usually ascribe the order which competition produces as an equilibrium – a somewhat unfortunate term, because such an equilibrium presupposes that the facts have already all been discovered and competition therefore has ceased. The concept of an ‘order’ which, at least for the discussion of problems of economic policy, I prefer to that of equilibrium, has the advantage that we can meaningfully speak about an order being approached to various degrees, and that order can be preserved throughout a process of change. While an economic equilibrium never really exists, there is some justification for asserting that the kind of order of which our theory describes an ideal type, is approached in a high degree.

This order manifests itself in the first instance in the circumstance that the expectations of transactions to be effected with other members of society, on which the plans of all the several economic subjects are based, can be mostly realised. This mutual adjustment of individual plans is brought about by what, since the physical sciences have also begun to concern themselves with spontaneous orders, or ‘self-organising systems’, we have learnt to call ‘negative feedback’. Indeed, as intelligent biologists acknowledge, ‘long before Claude Bernard, Clerk Maxwell, Walter B. Cannon, or Norbert Wiener developed cybernetics, Adam Smith has just as clearly used the idea in *The Wealth of Nations*. The “invisible hand” that regulated prices to a nicety is clearly this idea. In a free market, says Smith in effect, prices are regulated by negative feedback.’⁶

6 G. Hardin, *Nature and Man's Fate* (1951), Mentor ed. 1961, p. 54.

We shall see that the fact that a high degree of coincidence of expectations is brought about by the systematic disappointment of some kind of expectations is of crucial importance for an understanding of the functioning of the market order. But to bring about a mutual adjustment of individual plans is not all that the market achieves. It also secures that whatever is being produced will be produced by people who can do so more cheaply than (or at least as cheaply as) anybody who does not produce it (and cannot devote his energies to produce something else comparatively even more cheaply), and that each product is sold at a price lower than that at which anybody who in fact does not produce it could supply it. This, of course, does not exclude that some may make considerable profits over their costs if these costs are much lower than those of the next efficient potential producer. But it does mean that of the combination of commodities that is in fact produced, as much will be produced as we know to bring about by any known method. It will of course not be as much as we might produce if all the knowledge anybody possessed or can acquire were commanded by some one agency, and fed into a computer (the cost of finding out would, however, be considerable). Yet we do injustice to the achievement of the market if we judge it, as it were, from above, by comparing it with an ideal standard which we have no known way of achieving. If we judge it, as we ought to, from below, that is, if the comparison in this case is made against what we could achieve by any other method – especially against what would be produced if competition were prevented, so that only those to whom some authority had conferred the right to produce or sell particular things were allowed to do so. All we need to consider is how difficult it is in a competitive system to discover ways of supplying to consumers better or cheaper goods than they already get. Where such unused opportunities seem to exist we usually find that they remain undeveloped because their use is either prevented by the power of authority (including the enforcement of patent privileges), or by some private misuse of power which the law ought to prohibit.

It must not be forgotten that in this respect the market only brings about an approach towards some point on that n -dimensional surface, by which pure economic theory represents the horizon of all possibilities to which the production of any one proportional combination of commodities and services could conceivably be carried. The market leaves the particular combination of goods, and

its distribution among individuals, largely to unforeseeable circumstances – and, in this sense, to accident. It is, as Adam Smith already understood,⁷ as if we had agreed to play a game, partly of skill and partly of chance. This competitive game, at the price of leaving the share of each individual in some measure to accident, ensures that the real equivalent of whatever his share turns out to be, is as large as we know how to make it. The game is, to use up-to-date language, not a zero-sum game, but one through which, by playing it according to the rules, the pool to be shared is enlarged, leaving individual shares in the pool in a great measure to chance. A mind knowing all the facts could select any point he liked on the surface and distribute this product in the manner he thought right. But the only point on, or tolerably near, the horizon of possibilities which we know how to reach is the one at which we shall arrive if we leave its determination to the market. The so-called ‘maximum’ which we thus reach naturally cannot be defined as a sum of particular things, but only in terms of the chances it offers to unknown people to get as large a real equivalent as possible for their relative shares, which will be determined partly by accident. Simply because its results cannot be assessed in terms of a single scale of values, as is the case in an economy proper, it is very misleading to assess the results of a catallaxy as if it were an economy.

4

Misinterpretation of the market order as an economy that can and ought to satisfy different needs in a certain order of priority, shows itself particularly in the efforts of policy to correct prices and incomes in the interest of what is called ‘social justice’. Whatever meaning social philosophers have attached to this concept, in the practice of economic policy it has almost always meant one thing, and one thing only: the protection of certain groups against the necessity to descend from the absolute or relative material position which they have for some time enjoyed. Yet this is not a principle on which it is possible to act generally without destroying the foundations of the market order. Not only continuous increase, but in certain circumstances even mere maintenance of the existing level of incomes, depends on adaptation to unforeseen changes. This necessarily

⁷ Adam Smith, *The Theory of Moral Sentiments*, London, 1759, part VI, chapter 2, penultimate paragraph, and part VII, section II, chapter 1.

involves the relative, and perhaps even the absolute, share of some having to be reduced, although they are in no way responsible for the reduction.

The point to keep constantly in mind is that *all* economic adjustment is made necessary by unforeseen changes; and the whole reason for employing the price mechanism is to tell individuals that what they are doing, or can do, has for some reason for which they are not responsible become less or more demanded. Adaptation of the whole order of activities to changed circumstances rests on the remuneration derived from different activities being changed, without regard to the merits or faults of those affected.

The term 'incentives' is often used in this connection with somewhat misleading connotations, as if the main problem were to induce people to exert themselves sufficiently. However, the chief guidance which prices offer is not so much how to act, but *what to do*. In a continuously changing world even mere maintenance of a given level of wealth requires incessant changes in the direction of the efforts of some, which will be brought about only if the remuneration of some activities is increased and that of others decreased. With these adjustments, which under relatively stable conditions are needed merely to maintain the income stream, no 'surplus' is available which can be used to compensate those against whom prices turn. Only in a rapidly growing system can we hope to avoid absolute declines in the position of some groups.

Modern economists seem in this connection often to overlook that even the relative stability shown by many of those aggregates which macro-economics treats as data, is itself the result of a micro-economic process, of which changes in relative prices are an essential part. It is only thanks to the market mechanism that someone else is induced to step in and fill the gap caused by the failure of anyone to fulfil the expectations of his partners. Indeed, all those aggregate demand and supply curves with which we like to operate are not really objectively given facts, but results of the process of competition going on all the time. Nor can we hope to learn from statistical information what changes in prices or incomes are necessary in order to bring about adjustments to the inevitable changes.

The chief point, however, is that in a democratic society it would be wholly impossible by commands to bring about changes which are not felt to be just, and the necessity of which could never be clearly demonstrated. Deliberate regulation in such a political system must

always aim at securing prices which appear to be just. This means in practice preservation of the traditional structure of incomes and prices. An economic system in which each gets what others think he deserves would necessarily be a highly inefficient system – quite apart from its being also an intolerably oppressive system. Every 'incomes policy' is therefore more likely to prevent than to facilitate those changes in the price and income structures that are required to adapt the system to new circumstances.

It is one of the paradoxes of the present world that the communist countries are probably freer from the incubus of 'social justice', and more willing to let those bear the burden against whom developments turn, than are the 'capitalist' countries. For some Western countries at least the position seems hopeless, precisely because the ideology dominating their politics makes changes impossible that are necessary for the position of the working class to rise sufficiently fast to lead to the disappearance of this ideology.

5

If even in highly developed economic systems competition is important as a process of exploration in which prospectors search for unused opportunities that, when discovered, can also be used by others, this is to an even greater extent true of underdeveloped societies. My first attention has been deliberately given to problems of preserving an efficient order for conditions in which most resources and techniques are generally known, and constant adaptations of activities are made necessary only by inevitably minor changes, in order to maintain a given level of incomes. I will not consider here the undoubted role competition plays in the advance of technological knowledge. But I do want to point out how much more important it must be in countries where the chief task is to discover yet unknown opportunities of a society in which in the past competition has not been active. It may not be altogether absurd, although largely erroneous, to believe that we can foresee and control the structure of society which further technological advance will produce in already highly developed countries. But it is simply fantastic to believe that we can determine in advance the social structure in a country where the chief problem still is to discover what material and human resources are available, or that for such a country we can predict the particular consequences of any measures we may take.

Apart from the fact that there is in such countries so much more to be discovered, there is still another reason why the greatest freedom of competition seems to be even more important there than in more advanced countries. This is that required changes in habits and customs will be brought about only if the few willing and able to experiment with new methods can make it necessary for the many to follow them, and at the same time to show them the way. The required discovery process will be impeded or prevented, if the many are able to keep the few to the traditional ways. Of course, it is one of the chief reasons for the dislike of competition that it not only shows how things can be done more effectively, but also confronts those who depend for their incomes on the market with the alternative of imitating the more successful or losing some or all of their income. Competition produces in this way a kind of impersonal compulsion which makes it necessary for numerous individuals to adjust their way of life in a manner that no deliberate instructions or commands could bring about. Central direction in the service of so-called 'social justice' may be a luxury rich nations can afford, perhaps for a long time, without too great an impairment of their incomes. But it is certainly not a method by which poor countries can accelerate their adaptation to rapidly changing circumstances, on which their growth depends.

Perhaps it deserves mention in this connection that possibilities of growth are likely to be greater the more extensive are a country's yet unused opportunities. Strange though this may seem at first sight, a high rate of growth is more often than not evidence that opportunities have been neglected in the past. Thus, a high rate of growth can sometimes testify to bad policies of the past rather than good policies of the present. Consequently it is unreasonable to expect in already highly developed countries as high a rate of growth as can for some time be achieved in countries where effective utilisation of resources was previously long prevented by legal and institutional obstacles.

From all I have seen of the world the proportion of private persons who are prepared to try new possibilities, if they appear to them to promise better conditions, and if they are not prevented by the pressure of their fellows, is much the same everywhere. The much lamented absence of a spirit of enterprise in many of the new countries is not an unalterable characteristic of the individual inhabitants, but the consequence of restraints which existing customs

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and institutions place upon them. This is why it would be fatal in such societies for the collective will to be allowed to direct the efforts of individuals, instead of governmental power being confined to protecting individuals against the pressures of society. Such protection for private initiatives and enterprise can only ever be achieved through the institution of private property and the whole aggregate of libertarian institutions of law.

CHAPTER THIRTEEN

The Campaign Against Keynesian Inflation

As I explain in one of the following papers (p. 219), I had largely withdrawn from the debate on monetary policy when I found that most of my professional colleagues had started to speak a language and to discuss problems which seemed to me uninteresting.¹ By the summer of 1974, however, the problem of inflation had become so alarming that I felt it to be my duty once again to speak out. After an article in the English daily press (which had been preceded by a somewhat similar one in the German *Frankfurter Allgemeine Zeitung* of 19 August 1974), which is reprinted below as the first of a group, I devoted a large part of my Nobel Memorial Lecture in December to it. However, as this lecture is primarily devoted to problems of the philosophy of science, it is reprinted earlier on in this volume as chapter 2. The next opportunity offered when I was asked to speak at the Accademia dei Lincei at Rome at a celebration of the hundredth birthday of Luigi Einaudi, a lecture now reprinted on pp. 197–209 below. During the second quarter of 1975, at various places in the USA, I lectured on more or less the same lines and included, as the occasions suggested, discussions of various additional topics which I have now added as a sort of supplement on pp. 209–18. A lecture I gave to a conference at Geneva in the following September is reprinted on pp. 218–29. The suggestion it contains about future monetary institutions has now been expounded at greater length in a paper *Denationalization of Money*, published by the Institute of Economic Affairs, London, 1976, of which a much enlarged edition is due shortly.

¹ A collection of my occasional comments and observations on inflation has been edited by Sudha Shenoy for the Institute of Economic Affairs and published by the latter as Hobart Paperback 4 under the title *A Tiger by the Tail*, London, 1977.

1 Inflation's path to unemployment²

I

The responsibility for current world-wide inflation, I am sorry to say, rests wholly and squarely with the economists, or at least with that great majority of my fellow economists who have embraced the teachings of Lord Keynes.

What we are experiencing are simply the economic consequences of Lord Keynes. It was on the advice and even urging of his pupils that governments everywhere have financed increasing parts of their expenditure by creating money on a scale which every reputable economist before Keynes would have predicted would cause precisely the sort of inflation we have got. They did this in the erroneous belief that this was both a necessary and a lastingly effective method of securing full employment.

The seductive doctrine that a government deficit, as long as unemployment existed, was not only innocuous but even meritorious was of course most welcome to politicians. The advocates of this policy have long maintained that an increase of total expenditure which still led to an increase of employment could not be regarded as inflation at all. And now, when the steadily accelerating rise of prices has rather discredited this view, the general excuse is still that a moderate inflation is a small price to pay for full employment: 'rather 5 per cent inflation than 5 per cent unemployment', as it has recently been put by the German Chancellor.

This persuades most people who do not see the grave harm which inflation does. It might seem – and even some economists have maintained – that all inflation does is bring about some redistribution of incomes, so that what some lose others will gain, while unemployment necessarily means a reduction of aggregate real income.

This, however, disregards the chief harm which inflation causes, namely that it gives the whole structure of the economy a distorted, lopsided character which sooner or later makes a more extensive unemployment inevitable than that which that policy was intended to prevent. It does so by drawing more and more workers into kinds of jobs which depend on continuing or even accelerating inflation. The result is a situation of rising instability in which an ever-increasing part of current employment is dependent on continuing and perhaps accelerating inflation and in which every attempt to slow

² From the *Daily Telegraph* (London), 15 and 16 October 1974.

down inflation will at once lead to so much unemployment that the authorities will rapidly abandon it and resume inflation.

We are already familiar with the concept of 'stagflation' to describe that state in which the accepted rate of inflation no longer suffices to produce satisfactory employment. Politicians in that position have now little choice but to speed up inflation.

But this process cannot go on for ever, as an accelerating inflation soon leads to a complete disorganisation of all economic activity. Nor can this end be avoided by any effort to control prices and wages while the increase of the quantity of money continues: the particular jobs inflation has created depend on a continued rise of prices and will disappear as soon as that stops. A 'repressed' inflation, besides causing a still worse disorganisation of economic activity than an open one, has not even the advantage of maintaining that employment which the preceding open inflation has created.

We have in fact been led into a frightful position. All politicians promise that they will stop inflation *and* preserve full employment. But they *cannot* do this. And the longer they succeed in keeping up employment by continuing inflation, the greater will be the unemployment when the inflation finally comes to an end. There is no magic trick by which we can extricate ourselves from this position which we have created.

This does not mean that we need go through another period of unemployment as we did in the 1930s. That was due to the failure to prevent an actual shrinkage of the total demand for which there was no justification. But we must face the fact that in the present situation merely to stop the inflation or even to slow down its rate will produce substantial unemployment. Certainly nobody wishes this, but we can no longer avoid it and all attempts to postpone it will only increase its ultimate size.

The only alternative we have, and which, unfortunately, is a not unlikely outcome, is a command economy in which everyone is assigned his job; and though such an economy might avoid outright worklessness, the position of the great majority of workers in it would certainly be much worse than it would be even during a period of unemployment.

It is not the market economy (or 'the capitalist system') which is responsible for this calamity but our own mistaken monetary and financial policy. What we have done is to repeat on a colossal scale what in the past produced the recurring cycles of booms and depres-

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sions: to allow a long inflationary boom to bring about a misdirection of labour and other resources into employments in which they can be maintained only so long as inflation exceeds expectations. But while in the past the mechanism of the international monetary system brought such an inflation to a stop after a few years, we have managed to design a new system which allowed it to run on for two decades.

As long as we try to maintain this situation we are only making things worse in the long run. We can prevent a greater reaction than is necessary only by giving up the illusion that the boom can be prolonged indefinitely, and by facing now the task of mitigating the suffering and preventing the reaction from degenerating into a deflationary spiral. It will chiefly be a task not of preserving existing jobs but of facilitating the opening of (temporary and permanent) new jobs for those who will inevitably lose their present ones.

We can no longer hope to avoid this necessity, and closing our eyes to the problem will not make it go away. It may well be true that, because people have been taught that government can always prevent unemployment, its failure to do so will cause grave social disturbances. But if this is so, we probably have it no longer in our power to prevent it.

2

In order to see clearly the causes of our troubles it is necessary to understand the chief fault of the theory which has been guiding monetary and financial policy during the last twenty-five years and which was based on the belief that all important unemployment is due to an insufficiency of aggregate demand and can be cured by an increase of that demand.

This is the more readily believed as it is true that some unemployment is due to that cause and that an increase in aggregate demand will in most circumstances lead to a temporary increase of employment. But not all unemployment is due to an insufficiency of total demand or would disappear if total demand were higher. And, worse, much of the employment which an increase of demand at first produces cannot be maintained by demand remaining at that higher level but only by a continued rise of demand.

This sort of unemployment which we temporarily 'cure' by inflation, but in the long run are making worse by it, is due to the misdirection of resources which inflation causes. It can be prevented

only by a movement of workers from the jobs where there is an excess supply to those where there is a shortage. In other words, a continuous adjustment of the various kinds of labour to the changing demand requires a real labour market in which the wages of the different kinds of labour are determined by demand and supply.

Without a functioning labour market there can be no meaningful cost calculation and no efficient use of resources. Such a market can exist even with fairly strong trade unions so long as the unions bear the responsibility for any unemployment excessive wage demands will cause. But it disappears once government relieves the unions of this responsibility by promising maintenance of full employment at any level of wages.

This, incidentally, also answers the very confusing dispute about the role of the unions in causing inflation. There is, strictly speaking, no such thing as a cost-push inflation: all inflation is caused by excessive demand. To this extent the 'monetarists' led by Professor Milton Friedman are perfectly right. But unions can force a government committed to a Keynesian full employment policy to inflate in order to prevent the unemployment which their actions could otherwise cause; indeed, if it is believed that the government will prevent a rise of wages from leading to unemployment, there is no limit to the magnitude of wage demands – and indeed even little reason for the employers to resist them.

There is a little more reason to question Professor Friedman's recommendation of indexing as a means to combat the current inflation. No doubt indexing could do a lot to mitigate the harm inflation does to such groups as pensioners or those who have retired on their savings. And it might even cure at the root such inflations as are due to the inability of a government to keep up revenue to cover current expenditure.

But it is not likely to remedy the present inflation which is due to all people together trying to buy more than there is on the market and insisting that they be given enough money to enable them to buy at current prices what they expect to get. In this they must always be disappointed by a new rise of prices caused by their demand, and the vicious circle can be broken only by people contenting themselves with a somewhat lower real buying power than that which they have been vainly chasing for so long. This effect, however, a general adoption of indexing would prevent. It might even make a continuous inflation inevitable.

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But at present it is not chiefly wage demands that drive us into accelerating inflation – though they are part of the mechanism that does so. But people will learn before long that the increase of money wages is self-defeating. What is likely to drive us further on the perilous road will be the panicky reactions of politicians every time a slowing down of inflation leads to a substantial rise of unemployment. They are likely to react to it by resuming inflation and will find that every time it needs a larger dose of inflation to restore employment until in the end this medicine will altogether fail to work. It is this process which we must avoid at any price. It can be tolerated only by those who wish to destroy the market order and to replace it by a Communist or some other totalitarian system.

The first requirement, if we are to avoid this fate, is that we face the facts, and make people at large understand that, after the mistakes we have made, it simply is no longer in our power to maintain uninterrupted full employment. No economist who has lived through the experience of the 1930s will doubt that extensive and prolonged unemployment is one of the worst disasters which can befall a country. But all we can hope now is to prevent it from becoming too extensive and too prolonged and that it will be no more than an unavoidable period of transition to a state in which we can again hope to achieve the reasonable goal of a high and stable level of employment.

What the public must learn to understand if a rational policy is to be possible is that, whatever may be the fault of past governments, in the present position it is simply no longer in the power of government to maintain full employment and a tolerable productive organisation of the economy.

It will need great courage – and almost more understanding than one dares to hope for – on the part of the government to make people understand what the position is. We are probably approaching a critical test of democracy about the outcome of which one must feel apprehensive. One of the prime requirements of its successfully weathering this crisis is that the people are in time undeceived about the fateful illusion that there is a cheap and easy means of at the same time securing full employment and a continuous rapid rise of real wages. This can be achieved only by that steady restructuring of the use of all resources in adaptation to changing real conditions which the debauching of the monetary medium prevents and only a properly functioning market can bring about.

2 Inflation, the misdirection of labour, and unemployment³

I

After a unique 25-year period of great prosperity the economy of the Western world has arrived at a critical juncture. I expect that the experience of these years will enter history under the name of the Great Prosperity as the 1930s are known as the Great Depression. We have indeed succeeded, by eliminating all the automatic brakes which operated in the past, such as the gold standard and fixed rates of exchange, in maintaining the full and even excessive employment which was created by an expansion of credit, and in the end by open inflation, for a much longer time than I should have thought possible. But the inevitable end is now near if it has not already arrived.

I find myself in this connection in the unpleasant position that, after I had preached for 40 years that the time to prevent the coming of a depression is the boom, and while during the boom nobody listened to me, people now again turn to me and ask how the consequence of a policy can be avoided of which I had constantly warned. I must witness heads of the governments of all the Western industrial countries promising their people that they will stop the inflation *and* preserve full employment knowing that they *cannot* do this. But I fear even that such attempts, as President Ford has just announced, to postpone the inevitable crisis by a new inflationary push, may temporarily succeed and make the eventual breakdown even worse.

The disquieting but unalterable fact is that a false monetary and credit policy, through almost the whole time since the last war, has placed the economic systems of all the Western industrial countries in a highly unstable position in which anything we can do now will produce most unpleasant consequences. We have a choice only between three possibilities: to allow a rapidly accelerating open inflation to continue until it has brought about a complete disorganisation

³ A lecture delivered at Rome on 8 February 1975 at the Convegno Internazionale, 'Il Problema Della Moneta Oggi', indetto nel Centenario della Nascita di Luigi Einaudi, Accademia Nazionale dei Lincei, Atti Convegni Lincei 12 (Roma, 1976). A version carefully revised by the editor and perhaps easier to read will be found in Occasional Paper 45, published under the title *Full Employment at Any Price?*, by the Institute of Economic Affairs, London, 1975.

of all economic activity; to impose controls of wages and prices which will for a time conceal the effects of a continued inflation but would inevitably lead to a centrally directed and totalitarian economic system; and, finally, a determined termination of the increase of the quantity of money which would soon, through the appearance of substantial unemployment, make manifest all those misdirections of labour which the inflation of the past years has brought about and which the two other procedures would further increase.

To understand why the whole Western world allowed itself to be led into this frightful dilemma, it is necessary to glance briefly back at developments during the two decades between the great wars which have largely determined the views which have governed the policy of the post-war years. I want first to mention a lesson which has unfortunately been forgotten. In Austria and Germany the experience of the great inflation had of course directed our attention to the connection between changes of the quantity of money and changes of the degree of employment, and had especially shown to us that the employment created by inflation at once diminished as the inflation slowed down and that the termination of the inflation always produced what came to be called a 'stabilisation crisis' with substantial unemployment. It was the insight into this connection which made me and some of my contemporaries from the outside reject and oppose the kind of full employment policy propagated by Lord Keynes and his followers.

I do not want to leave this recollection of the great inflation without mentioning that I have probably learnt at least as much as, if not more than, I learnt from observing the actual facts of the great inflation by being taught to see – largely by my teacher, the late Ludwig von Mises – the utter stupidity of the arguments which were then, especially in Germany, propounded to explain and justify the increases in the quantity of money. Most of these arguments I am now encountering again in countries which then seemed economically more sophisticated and whose economists rather looked down at the foolishness of the German economists. None of these apologists of the inflationary policy was able to propose or apply measures which made it possible to terminate the inflation, which was finally done by a man who believed in a crude and primitive version of the quantity theory, Hjalmar Schacht. But that only by the way.

The policy of the recent decades, or the theory which underlies it, had its origin, however, in the specific experiences of Great Britain

during the 1920s and 1930s. Great Britain in 1925, as you know, after what must seem to us the very modest inflation of the First World War, had, in my opinion very sensibly, returned to the gold standard, but unfortunately, very honestly but unreasonably, at the former parity. This had in no way been required by classical doctrine: David Ricardo had in 1821 written to a friend that he 'should never advise a government to restore a currency which had been depreciated 30 per cent to par'.⁴ I ask myself often how different the economic history of the world might have been if in the discussion of the years preceding 1925 one English economist had remembered and pointed out this long-before published passage in one of Ricardo's letters.

In the event, the unfortunate decision taken in 1925 made a prolonged process of deflation inevitable, a process which might have been successful in maintaining the gold standard if it had been continued until a large part of the prevailing money wages had been reduced. I believe this attempt was near success when in the world crisis of 1931 England abandoned it together with the gold standard which this event finally discredited.

It was during this period of most extensive unemployment in Great Britain, which preceded the world-wide economic crisis of 1929-31, that John Maynard Keynes developed his basic ideas. It is important to notice that this happened in a very exceptional and almost unique position of his country: at a time when as a result of the great appreciation of the international value of the pound sterling the real wages of practically all British workers had been substantially increased compared with the rest of the world, and British exporters had in consequence in a great measure become unable to compete successfully in the world markets. In order to give employment to the unemployed it would at that juncture therefore have been necessary either to lower all wages or to raise the sterling prices of most commodities.

In the development of Keynes' thought it is possible to distinguish three distinct phases: he began with the recognition that it was necessary to lower real wages, came to the conclusion that this was politically impossible, and finally convinced himself that it would be vain and even harmful. In this way the Keynes of 1919, who had still understood that

⁴ David Ricardo to John Wheatley, 18 September 1821, reprinted in *The Works of David Ricardo*, ed. Piero Sraffa, Cambridge University Press, 1952, vol. IX, p. 73.

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there is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose,⁵

became the inflationist or at least rabid anti-deflationist of the 1930s. I have, however, strong reason to believe that he would have disapproved of what his pupils did in the post-war period and that, if he had not died so soon, he would have become one of the leaders in the fight against inflation.

It was in the course of that unfortunate episode in English monetary history that he became the intellectual leader who gained acceptance for the fatal idea that unemployment is predominantly due to an insufficiency of aggregate demand compared with the total of wages which would have to be paid if all workers were to be employed at current wages. This formula of employment as a direct function to total demand proved so extraordinarily effective because it seemed to be confirmed in some degree by the results of quantitative empirical data, while the alternative explanations of unemployment which I regard as correct could make no such claims. Eight weeks ago I made the dangerous effects which the scientific prejudice has had in this connection the subject of my Nobel lecture at Stockholm and will consider it here only briefly.

What we find here is the curious situation that the theory which is comparatively best confirmed by statistics, because it is the only one which *can* be tested statistically, is nevertheless false and has been widely accepted only because the explanation which had earlier been regarded as true, and which I still regard as true, but by its very nature cannot be tested in this manner.

The older, and to me convincing, explanation of extensive unemployment ascribes it to a discrepancy between the distribution of labour (and the other factors of production) between the different industries (and localities) and the distribution of demand among their products. This discrepancy is caused by a distortion of the system of relative prices and wages and can be corrected only by a change in these relations, that is, by the establishment of such relative prices

⁵ *The Economic Consequences of the Peace* (1919), reprinted in *The Collected Writings of John Maynard Keynes*, Macmillan for the Royal Economic Society, 1971, vol. II, p. 149.

and wages that in each sector of the economy supply will equal demand.

The cause of unemployment, in other words, is a deviation of prices and wages from their equilibrium position which would establish itself with a free market and stable money. But we can never know at what system of relative prices and wages such an equilibrium would establish itself. We are therefore unable to measure the deviation of the existing prices from that equilibrium position which is the cause of the impossibility of selling part of the labour supply; and we are therefore equally unable to demonstrate a statistical correlation between the distortion of relative prices and the volume of unemployment. Causes may, however, be very effective although not measurable, and the current superstition that only the measurable can be important has done much to mislead us.

Probably even more important, however, than those fashionable prejudices concerning scientific methods which made the new theory attractive to the professional economists, were the temptations it offered to the politicians. It offered to them not only a cheap and quick method of removing a chief source of real suffering; it promised them also release from the most restricting fetters which had impeded them in their striving for popularity. Spending more money and budget deficits were suddenly represented as virtues and it was even persuasively argued that increased government expenditure was wholly meritorious since it led to the utilisation of hitherto unused resources and this cost nothing to the community but brought it only a net gain.

These beliefs led in particular to the gradual removal of all effective barriers against an increase in the quantity of money by the monetary authorities. Already the Bretton Woods agreement had by its endeavour to place the burden of international adjustment exclusively on the surplus countries, i.e. to require them to expand but not to require the deficit countries to contract, laid the foundation for a world inflation. But this was at least done in the laudable endeavour to secure fixed rates of exchange. Yet when the criticism of the inflationistically minded majority of the economists succeeded in removing this last obstacle to national inflation, there was no effective brake left.

It is, I believe, undeniable that the demand for flexible rates of exchange originated wholly from countries whose economists wanted a wider margin for credit expansion (called full employment policy).

They have, unfortunately, later received support also from other economists who were not inspired by the desire for inflation. These men seem to me to have overlooked the strongest argument in favour of fixed rates of exchange, namely that they constitute the practically irreplaceable curb which we need to *compel* the politicians and the monetary authorities responsible to politicians to maintain a stable currency.

The maintenance of the value of money and the avoidance of inflation demand all the time from the politician highly unpopular measures which he can justify towards those who are unfavourably affected by them only by showing that he was compelled to take them. So long as the preservation of the external value of the national currency is regarded as an undisputable necessity, he can resist the constant demands for cheaper credits, avoidance of a rise in interest rates, more expenditure on public works and so on. But while a fall in the foreign value of the currency or an outflow of gold or foreign exchange acted as a signal requiring prompt reaction, the effect on the internal price level is much too slow – and usually preceded by a welcome increase in employment – to be generally recognised or to be charged to those ultimately responsible for it.

I understand, therefore, very well that, in the hope thereby to restrain the countries all too inclined towards inflation, countries like Germany and Switzerland, even while they were already noticeably suffering from imported inflation, hesitated to destroy altogether the system of fixed rates of exchange so long as it seemed that it might restrain the tendencies in other countries further to speed up the inflation. Now, of course, when the system of fixed rates of exchange appears to have definitely collapsed and there seems scarcely any hope that by observing discipline themselves they might induce other countries to restrain themselves, there is little reason left why they should adhere to a system which is no longer effective. And in retrospect one may well ask whether, out of a mistaken hope, the German Bundesbank or the Swiss National Bank have not waited too long and even then raised the value of their currency too little. But from a long-term point of view I do not believe that we shall regain a system of international stability without returning to a system of fixed rates of exchange which imposes upon the national central banks that compulsion which they need if they are to resist the pressure of the inflationistically minded forces of their country – usually including the ministers of finance.

But why all this fear of inflation? Should we not try to learn to live with it, as some South American countries seem to have done, particularly if, as some believe, this is the necessary price of securing full employment? If this were true and the harm done by inflation were only that which many people emphasise, we would have to consider this possibility seriously.

However, the answer is, first, that such inflation, in order to achieve the goal aimed at, would have constantly to accelerate and that such accelerating inflation would sooner or later reach a degree which makes all effective order of a market economy impossible; and, second and most important, that in the long run such inflation makes much greater unemployment inevitable than that which it was originally intended to prevent.

The argument often advanced that inflation produces merely a redistribution of the social product while unemployment reduces it and for this reason represents a greater evil is thus false, because inflation becomes the cause of increased unemployment.

I certainly do not wish to underestimate the other harmful effects of inflation. They are much worse than anyone can conceive who has not himself lived through a great inflation – and I count my first eight months in a job during which my salary rose to 200 times the initial amount as such an experience. I am indeed convinced that such a mismanagement of the currency is tolerated by the people only because, while such an inflation proceeds, nobody has the time or energy to organise a popular rising. What I want to say is merely that even these effects, which every citizen experiences, are not the worst effects of inflation. These are usually not understood because they become visible only when the inflation is past. This must particularly be said to those who like to point to the South American countries which have had inflations lasting through several generations and which seem to have learnt to live with them. But in these predominantly agrarian countries the important effects of inflation are chiefly limited to those I have just mentioned, while the chief effects of an inflation produced in industrial countries by an effort to create employment thereby are in these conditions of minor importance.

I have no time to discuss here the attempts made in some of these countries, in particular in Brazil, to deal with the problems of

inflation by some method of indexing which can at best remedy some of the consequences but certainly not the chief causes of inflation, or its most harmful effects. They certainly would not prevent the worst damage which inflation causes, that is that misdirection of labour which I have already mentioned as its effect but which I must now consider more fully.

Inflation makes certain jobs attractive which will disappear when it stops or even when it ceases to accelerate at a sufficient rate in consequence of

- (a) the changes in the proportional distribution of the money stream between the different sectors and stages of the process of production, and
- (b) the effects of the expectations of a further future rise of prices which it causes.

The defenders of a monetary full employment policy often represent the position as if a single increase of total demand were sufficient to secure full employment for an indefinite but fairly long period. This argument overlooks the inevitable effects of such a policy on the wage policy of the trade unions.

As soon as government assumes the responsibility to maintain full employment at whatever wages the trade unions succeed in obtaining, these unions no longer have any reason to take account of the unemployment which their wage demands may cause. In this situation every increase of wages which exceeds the increase of productivity of the kind of labour concerned will make necessary an increase in total demand if unemployment is not to ensue. The increase in the quantity of money made necessary by the upward movement of wages thus released becomes a continuous process involving a constant influx of additional quantities of money which in turn must lead to changes in the relative strength of demand for the different kinds of goods and services. This in turn must lead to changes in relative prices and consequent changes in the direction of production and the allocation of the factors of production (including labour). I must leave aside here all the other reasons why the prices of the different goods – and the quantities of them that will be produced – will react differently to changes in the demand.

The chief point I want to bring out is that the longer the inflation lasts, the greater will be the number of the workers whose jobs depend on a continuation of the inflation, often even on a continuing acceleration of the rate of inflation – not because they would not

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have found employment without the inflation, but because they were drawn by the inflation into temporarily attractive jobs which after a slowing down or cessation of the inflation will again disappear.

We ought to have no illusion that we can escape the consequences of the mistakes we have made. Any attempt to preserve the particular jobs which have been made profitable by inflation would lead to a complete destruction of the market order. *We have once again missed the opportunity to forestall a depression while it was still in our power to do so.* We have in fact used our newly gained freedom from institutional compulsion in order to act more stupidly than we have ever done before.

But if we cannot escape the reappearance of substantial unemployment, this is not the effect of a failure of 'capitalism', or the market economy, but exclusively of our own errors which past experience and already available knowledge ought to have enabled us to avoid. It is unfortunately only too true that the disappointment of expectations which we have created may lead to serious social disturbances. But this does not mean that we can avoid this effect. The most serious danger now is certainly that attempts, so attractive for the politicians, to postpone the evil day and thereby make things in the long run even worse, may still succeed. I must confess that I have been wishing for some time that the inescapable crisis may come soon, and that I hope that any attempts that may be made at once to restart the process of monetary expansion will not succeed but that we shall be forced to face now the problem of choosing a new policy.

Let me, however, emphasise at once that, although I regard a period of some months, perhaps even more than a year, of considerable unemployment as unavoidable, this does not mean that we must expect another long period of mass unemployment comparable with the Great Depression of the 1930s if we do not commit very bad mistakes of policy. Such a development can be prevented by a sensible policy which does not repeat those errors which were responsible for the long duration of the Great Depression.

But before I turn to the question of what ought to be our future policy, I want emphatically to reject a misrepresentation of my argument which I have already experienced. I certainly do not recommend bringing about unemployment as a *means* in order to combat inflation, but have to advise in a situation in which the choice open to us is solely between some unemployment in the near future, and greater unemployment at a later date; and what I above all fear

is the *après nous la déluge* attitude of the politicians who in their concern about the next elections are likely to choose the second alternative. Unfortunately even some experts, such as the writers of the English weekly *The Economist*, argue in a similar manner and call already for 'reflation' when the increase in the quantity of money is still lustily continuing.

The first necessity now is to stop the increase of the quantity of money, or at least to reduce it to the rate of real growth of production – and this cannot happen soon enough. I can see no advantage in a gradual deceleration, although for purely technical reasons it may prove necessary in some measure.

This does, however, not mean that we should not endeavour to stop a real deflation when it should threaten to set in. Although I do not regard deflation as the original cause of a decline in business activity, such a reaction has unquestionably the tendency to induce a process of deflation – to cause what more than 40 years ago I called a 'secondary deflation'⁶ – the effects of which may be worse, and in the 1930s certainly were worse than what the original cause of the reaction made necessary, and which have no steering function to perform.

I have to confess that 40 years ago I argued differently and that I have since altered my opinion – not about the theoretical explanation of the events but about the practical possibility of removing the obstacles to the functioning of the system in a particular way.

I did then believe that a short process of deflation might break that rigidity of money wages, that is what economists have since come to call their 'rigidity downwards' or the resistance against the reduction of some particular money wages, and that in this way we could restore a determination of relative wages by the market. This seems to me still an indispensable condition if the market mechanism is to function satisfactorily. But I no longer believe that it is practically possible to achieve this in this manner; and I probably should have seen then that the last chance was gone after the British government in 1931 abandoned the attempt to bring costs down by deflation just as it seemed near success.

If I were today responsible for the monetary policy of a country I would certainly endeavour to prevent a threatening actual deflation, that is an absolute decrease of the stream of incomes, with all suitable

⁶ I recollect that this phrase was frequently used in the London School of Economics seminar during the 1930s.

means, and would announce that I intend to do so. This alone would probably be sufficient to prevent a degeneration of the recession into a long-lasting depression. The re-establishment of a properly functioning market would, however, still require a restructuring of the whole system of relative prices and wages and a readjustment to the expectation of stable prices, which presupposes a much greater flexibility than exists now; what chance we have to achieve it and how long it may take I dare not predict.

From a longer point of view it is obvious that, once we have got over the immediate difficulties, we must not avail ourselves again of the seemingly cheap and easy method of achieving full employment by aiming at the maximum of employment which can be brought about in the short run by monetary pressure.

The Keynesian dream is gone even if its ghost continues to plague politics for decades. It were to be wished that the words 'full employment' themselves, which have become so closely associated with the inflationist policy, should be abandoned – or that we should at least remember the sense in which this was the aim of classical economists long before Keynes: John Stuart Mill reports in his autobiography how 'full employment with high wages'⁷ appeared to him in his youth as the chief desideratum of economic policy. What we must now be clear about is that our aim must not be that maximum of employment which can be achieved in the short run, but a 'high and stable level of employment', as one of the post-war British White Papers on employment policy still phrased it.⁸ This, however, we can achieve only through the re-establishment of a properly functioning market which, by the free play of prices and wages, secures in each sector a correspondence of supply and demand. Though it must remain one of the chief tasks of monetary policy to prevent great fluctuations of the quantity of money or the volume of the income stream, the effect on employment must not be the dominating consideration guiding it. The primary aim must again become the stability of the value of money and the currency authorities must again be effectively protected against that political pressure which today forces them so often to take measures which are politically advantageous in the short run but harmful in the long run.

I wish I could share the confidence of my friend Milton Friedman who thinks that one could deprive the monetary authorities, in

⁷ *Autobiography and Other Writings*, ed. J. Stillinger, Boston, 1969.

⁸ *Employment Policy*, Cmd 6527, HMSO, May 1944, Foreword.

order to prevent the abuse of their powers for political purposes, of all discretionary powers by prescribing the amount of money which they may (and have to) add to circulation in any one year. It seems to me that he regards this as practicable because he has got used to drawing for statistical purposes a sharp distinction between what is to be regarded as money and what is not, which in fact does not exist. I believe that in order to ensure the convertibility of all kinds of near-money into real money, which is necessary if we are to avoid severe liquidity crises or panics, the monetary authorities must be given some discretion. But I do agree with him that we will have to try and get back to some more or less automatic system for regulating the quantity of money.

And although I am not as optimistic as the Chief Editor of the *London Times*, who some time ago in a sensational article⁹ and now in a book has proposed a return to the gold standard,¹⁰ it does make me feel somewhat more optimistic when I see such a proposal coming from so influential a quarter. I would even agree that among the *practicable* monetary systems the international gold standard is the best, if I did regard it as practicable, that is if I could believe that, if it were re-established, the most important countries could be trusted to obey those rules of the game which are necessary for its preservation. But this seems to me exceedingly unlikely, and no single country can have an effective gold standard: it is by its nature an international system and can function only as an international system.

It is, however, already a great step in the direction of a return to reason when at the end of this book Mr Rees-Mogg argues that¹¹

We should be tearing up the full employment commitment of the 1944 White Paper, a great political and economic revolution.

This would until very recently have seemed a high price to pay; now it is no great price at all. There is little or no prospect of maintaining full employment with the present inflation, in Britain or in the World. The full employment standard became a commitment to inflation, but the inflation has now accelerated past the point at which it is compatible with full employment.

⁹ 'Crisis of paper currencies: has the time come for Britain to return to the gold standard?' *The Times*, 1 May 1974.

¹⁰ William Rees-Mogg, *The Reigning Error. The Crisis of World Inflation*, London, 1974.

¹¹ *Ibid.*, p. 112.

Equally encouraging is a statement of the British Chancellor of the Exchequer who is reported to have said that 'It is far better that more people should be in work – even if that means lower wages on average – than that those lucky enough to keep their jobs should scrape the pool while millions are living on the dole.'¹²

It would almost seem as if in the country in which the harmful doctrines originated a reversal of opinion were now under way. Let us hope that it will rapidly spread over the world.

3 Further considerations on the same topic¹³

It seems to me that the primary duty today of any economist who deserves the name is to repeat on every occasion that the present unemployment is the direct and inevitable consequence of the so-called full employment policies pursued for the last 25 years. Most people still believe mistakenly that an increase in aggregate demand will remove the cause of unemployment. Nothing, therefore, short of the realisation that this remedy, though usually effective in the short run, produces much more unemployment later, will prevent the public from exerting irresistible pressure to resume inflation as soon as unemployment substantially increases.

To understand this basic truth is to recognise that the majority of economists whose advice governments have been following in Britain and the rest of the Western world during this period have thoroughly discredited themselves and ought to do penance in sackcloth and ashes. What was almost unquestioned orthodoxy for close on 30 years has been thoroughly discredited. And the present economic crisis also marks a severe setback in the authority of economics – or at least the long overdue collapse of the Keynesian bubble of the fashionable doctrine that has dominated opinion for a generation. I am fully convinced that before we can return to reason-

¹² Speech at the East Leeds Labour Club reported in *The Times*, 11 January 1975.

¹³ What follows are merely elaborations of particular points made in the preceding lecture while I spoke on the same general topic to various audiences in the USA in the course of the second quarter of 1975. A shorter collection of these supplementary observations was already added to the original text when, with the preceding chapters and the second section of this chapter, it was reprinted by the Institute of Economic Affairs in its Occasional Paper 45 under the title *Full Employment at Any Price?* London, 1975. Some further passages have now been included from addresses published in the *First Chicago Report* issued by the First National Bank of Chicago in May 1975, and a brochure entitled *A Discussion with Friedrich A. von Hayek* issued by the American Enterprise Institute for Public Policy Research, Washington D.C., 1972.

able stability, not to mention lasting prosperity, we must exorcise the Keynesian incubus. By this I mean less what John Maynard Keynes himself thought – because you can find in Keynes, as in Marx, almost everything – than the teaching of those Keynesians who, as Professor Joan Robinson recently told us, ‘sometimes had trouble in getting Maynard to see what the point of his revolution really was’.¹⁴

The conquest of opinion by Keynesian economics is mainly due to the fact that its argument conformed with the age-old belief of the shopkeeper that his prosperity depended on consumers’ demand for his wares. The plausible but erroneous conclusion derived from this individual experience in business that general prosperity could be maintained by keeping general demand high, against which economic theory had been arguing for generations, was suddenly again made respectable by Keynes. And since the 1930s it has been embraced as obvious good sense by a whole generation of economists brought up on the teaching of his school. It has had the effect that for a quarter of a century we have systematically employed all available methods of increasing money expenditure, which in the short run creates additional employment but at the same time leads to misdirections of labour that must ultimately result in unemployment.

This fundamental connection between inflation and unemployment is obscured because, although insufficient general demand is normally not the primary source of unemployment (except during an actual deflation, i.e. a decrease in the quantity of money), unemployment may itself become the cause of an absolute shrinkage of aggregate demand which in turn may bring about a further increase of unemployment and thus lead to a cumulative process of contraction in which unemployment feeds on unemployment. Such a ‘secondary depression’ caused by an induced deflation should of course be prevented by appropriate monetary counter-measures. Though I am sometimes accused of having represented the deflationary cause of the business cycles as part of the curative process, I do not think that was ever what I argued. What I did believe at one time was that a deflation might be necessary to break the developing downward rigidity of all particular wages which has of course become one of the main causes of inflation. I no longer think that

¹⁴ Joan Robinson, ‘What has become of the Keynesian revolution?’, in Milo Keynes (ed.), *Essays on John Maynard Keynes*, Cambridge, 1975, p. 125. See also note on p. 229.

this is a politically possible method and we shall have to find other means to restore the flexibility of the wage structure than the present method of raising all wages except those which must fall relatively to all others. Nor did I ever doubt that in most situations employment could be temporarily increased by increasing money expenditure. There was one classical occasion when I even admitted that this might be politically necessary, whatever the long run economic harm it did.

The occasion was the situation in Germany in, I believe, 1930 when the depression was beginning to get quite serious and a political commission – the Braun Committee – had proposed to combat it by reflation (though that term had not yet been coined), i.e. a rapid expansion of credit. One of the members of the committee, in fact the main author of the report, was my late friend, Professor Wilhelm Röpke. I thought that in the circumstances the proposal was wrong and wrote an article criticising it. I did not send it to a journal, however, but to Professor Röpke with a covering letter in which I made the following point:

Apart from political considerations I feel you ought not – not yet at least – to start expanding credit. But if the political situation is so serious that continuing unemployment would lead to a political revolution, please do not publish my article. That is a political consideration, however, the merits of which I cannot judge from outside Germany but which you will be able to judge.

Röpke's reaction was not to publish the article, because he was convinced that at that time the political danger of increasing unemployment was so great that he would risk the danger of causing further misdirections by more inflation in the hope of postponing the crisis; at that particular moment this seemed to him politically necessary and I consequently withdrew my article.

To return, however, to the specific problem of preventing what I have called the secondary depression caused by the deflation which a crisis is likely to induce. Although it is clear that such a deflation, which does no good and only harm, ought to be prevented, it is not easy to see how this can be done without producing further misdirections of labour. In general it is probably true to say that an equilibrium position will be most effectively approached if consumers' demand is prevented from falling substantially by providing

employment through public works at relatively low wages so that workers will wish to move as soon as they can to other and better paid occupations, and not by directly stimulating particular kinds of investment or similar kinds of public expenditure which will draw labour into jobs they will expect to be permanent but which must cease as the source of the expenditure dries up.

At the present moment, however, our problem is not yet to prevent any such deflation, and the cry for reflation is actually raised at a time when the increase of the quantity of money is everywhere still lustily proceeding. Our chief duty is, therefore, still to prevent attempts to combat the unemployment made inevitable through misdirections of labour by a renewed spurt of inflation, which would only increase those misdirections and thus in the long run make matters worse.

A short exposition cannot do justice to the complexity of the facts in another important respect. There is one special difficulty about accounting for the present situation. In the misdirection of labour and the distortion of the structure of production during past business cycles, it was fairly easy to point to the places where the excessive expansion had occurred because it was, on the whole, confined to the capital goods industries. The whole thing was due to an over-expansion of credit for investment purposes, and it was therefore possible to regard the industries producing capital equipment as those which had been over-expanded.

In contrast, the present expansion of money, which has been brought about partly by means of bank credit expansion and partly through budget deficits, has been the result of a deliberate policy, and has gone through somewhat different channels. The additional expenditure has been much more widely dispersed. In the earlier cases I had no difficulty in pointing to particular instances of over-expansion; now I am somewhat embarrassed when I am asked the question, because I would have to know the particular situation in a particular country, where these additional money flows went in the first place, etc. I would also have to trace the successive movements of prices which indicate these flows. In consequence, I have no general answer to the question.

I do not doubt that in a sense we have today the same kind of phenomenon, but the over-expansion, the undue increase of labour employed in particular occupations, is not confined to a single, clearly defined block such as the capital-goods industries. It is now spread

much more widely, and the distribution is much more difficult to describe. It is a field I would wish some statistically minded economist would investigate in order to show how the process operated in particular countries. I am by no means sure where such an investigation would find the most important over-developments. The places where the misplaced, and in consequence now *displaced*, workers can find lasting employment can be discovered only by letting the market operate freely.

We must certainly expect the recovery to come from a revival of industrial investment. But we want investment of the kind which will prove profitable and can be continued when a new position of fair stability and a high level of employment has been achieved. Neither a subsidisation of investment nor artificially low interest rates are likely to bring about this position. And least of all is the desirable (i.e. stable) form of investment to be brought about by stimulating consumers' demand.

The belief that, in order to make new investment profitable consumers' demand must increase is part of the same widespread fallacy to which the businessman is especially prone. It is true only of investment designed to increase output by using the *same* techniques as hitherto employed, but not of the only sort of investment which can increase productivity per head of worker by equipping a given labour force with *more* capital equipment. Such intensification of capital use is indeed encouraged by relatively *low* product (consumer good) prices (which makes it necessary to save on labour costs) and discouraged by high ones. This is one of the elementary connections between wages and investment wholly overlooked in Keynesian economics.

I not only think that the belief that by pushing up monetary demand we can maintain full employment is entirely mistaken, but am also convinced that if this belief prevails among the public it becomes wholly impossible for a government which has any discretion in these matters to pursue a sensible policy. What current discussion leaves out of account is that governments and monetary authorities are very far from being free to act in the manner which they regard as wise and expedient in the long run. Their problem is chiefly one of finding an excuse for resisting the ever present demand for providing more and cheaper money. This has been a tradition of our civilisation for centuries and one that we had brought under control by certain institutions which were perhaps not

particularly efficient or particularly wise, but which put a restraint upon governments to which they could appeal if they were asked to create more money in order to create employment. Central banks and ministers of finance would say, 'We cannot do it because it would drive us off the gold standard or because it would lower our rate of exchange.'

It was the ability to appeal to these institutional restraints which alone made it possible for governments to keep at least near a reasonable course. It was certainly not an ideal policy, nor what they would have done if they had been free to do what they regarded as wise, but it was the best course possible in the existing political set-up. A great many of the most intelligent economists of our time, including most of my personal friends, have contributed to the destruction of the gold standard and the régime of fixed rates of exchange. They instituted something like the Bretton Woods system in which the whole responsibility for adjusting international balances was placed on the creditor countries, and the debtor countries were released of all responsibility. There was even concern created about providing sufficient international liquidity at a time when we were already in the midst of serious inflation. Finally, the last restraints were removed when we left this system of fixed parities for one of flexible parities.

The importance of fixed parities is that they impose upon the monetary authorities a much needed discipline. What I strongly object to is the demand for flexible parities on the ground, which guided this demand on the part of the Anglo-Saxon countries, that it facilitated credit expansion. It was of course a different matter when finally, in resignation, some countries abandoned fixed exchanges in order to protect themselves against the importation of the inflation from the rest of the world. Germany and Switzerland were probably right when they finally and after long hesitation, perhaps too long hesitation, concluded that if fixed exchanges had already ceased to be effective checks on excessive expansion, they at least would not allow fixed rates to force them to participate in the international inflation, and therefore also adopted flexible exchanges. I have no way of reading the mind of the German Bundesbank or the Swiss National Bank, but they had long been guided by the consideration that it was more important to brake the inflationary tendencies in the Western countries than to exclude the effects of these policies on their own countries. In Germany they resigned themselves eventually – perhaps even too late – to the fact that, as the check on

others had already become ineffective and fixed exchange rates no longer served their main purpose, they had better adopt floating rates as a protection against inflation.

In this sense, I believe, we ought as economists think much more about the political significance of institutions which place a restraint on monetary policy and can shelter governments against political pressure, than about the ideal correctness of the policy which might be conducted. Central banks and ministers of finance will never be able to implement what the economist would regard as the wise policy. They will always have to act under political pressure, and all we can hope to do is to protect them against this political pressure as well as possible.

The contention that a general rise of prices such as we in the Western world have experienced in recent years is wholly due to, and made possible by, an excessive increase of the quantity of money, and that, therefore, governmental monetary policy is wholly responsible for it, is today usually described as the 'monetarist' position. It seems to me in this general form incontrovertible, even though it is also true that what has led governments to such a policy was chiefly the activity of trade unions and similar activities by other monopolistic organisations (such as the oil cartel). But in a narrower sense 'monetarist' is today frequently used to describe the expositors of a somewhat mechanical form of the quantity theory of the value of money which in my opinion over-simplifies the theoretical connections.

My chief objection against this theory is that, as what is called a 'macro-theory', it pays attention only to the effects of changes in the quantity of money on the general price level and not to the effects on the structure of relative prices. In consequence, it tends to disregard what seems to me the most harmful effects of inflation: the misdirection of resources it causes and the unemployment which ultimately results from it.

Nevertheless, for most practical purposes I regard this simple form of the quantity theory as a decidedly helpful guide and agree that we should not forget that the great inflations of the past, particularly those in Germany in the early 1920s and the late 1940s, were stopped by men who acted on this somewhat crude form of the quantity theory. But, though this over-simplified explanation of events seems to me inadequate to account for some of the deleterious effects of changes in the quantity of money, I emphasised nearly 45 years ago,

when I attempted to remedy these defects, that 'it would be one of the worst things that could befall us if the general public should ever again cease to believe in the elementary propositions of the quantity theory'¹⁵ (then represented chiefly by the economists Irving Fisher and Gustav Cassel). But exactly this has happened as the result of the persuasive powers of Lord Keynes to whose proposals for combating the depression of the 1930s the traditional views had been an obstacle.

The defects of what became the traditional quantity theory approach had indeed been pointed out 200 years earlier when Richard Cantillon had argued against John Locke's similar mechanical quantity theory that¹⁶

he realized well that the abundance of money makes everything dear, but he did not analyse how that takes place. The great difficulty of that analysis consists in the discovery by what path and in what proportion the increase on money raises the prices of things.

This analysis of Cantillon (and David Hume's similar efforts) were the first to attempt to trace the course through which an inflow of additional money alters the *relative* demand for different commodities and services. It led to an explanation of how inflation results in a misdirection of resources and particularly of labour which, in the jobs to which it has been attracted, becomes 'redundant' as soon as inflation slows down or even merely ceases to accelerate. But this promising stream of thought was smothered by the Keynesian flood which threw economists back to a state of knowledge that had been surpassed long before, and re-opened the gates to errors of government policy of which our grandparents would have been ashamed.

The present inflation has been deliberately brought about by governments on the advice of economists. The British Labour Party planned it that way as early as 1957, although it got a little out of hand, as it always will once you start playing with it: in its proposals for a National Pension Fund it dealt with the problem of future price movements by the assumption that prices would double between 1960 and 1980¹⁷ – then an alarming prospect but now of

¹⁵ *Prices and Production*, London, 1931, p. 3. E. von Böhm-Bawerk used to speak of 'the indestructible core of truth in the quantity theory'.

¹⁶ Richard Cantillon, *An Essay on the Nature of Commerce in General*, ed. Henry Higgs, London, 1931, part I, chapter 6.

¹⁷ *National Superannuation. Labour's Policy for Security in Old Age*, published by the Labour Party, London, 1957, pp. 104 and 109.

course already far surpassed. And as long ago as 1948 a highly influential textbook of economics¹⁸ could plead that a 5 per cent per annum increase of prices was innocuous (if that had occurred since 1948 prices would now be just about four times as high as they were then!). What these and other economists overlooked was, moreover, that the purpose which they approved required an accelerating inflation, and that any accelerating inflation sooner or later becomes unbearable. Inflation at a constant rate soon comes to be anticipated in ordinary business transactions, and then merely harms the recipients of fixed contractual incomes but does no good.

Much confusion is caused in current discussion by a constant misuse of the term 'inflation'. Its original and proper meaning is an excessive increase in the quantity of money which will normally lead to an increase of prices. But even a general rise of prices, for instance one caused by a shortage of food because of bad harvests, is not necessarily inflation. Nor could a general rise of prices caused by the shortage of oil and other sources of energy that led to an absolute reduction of consumption be properly called inflation – if this shortage had not been made the excuse for a further increase in the quantity of money. There may also be considerable inflation that seriously interferes with the working of the market without any rise of prices – if this effect is prevented by controls. Indeed, if there is anything worse than open inflation it is what the Germans learned to call 'repressed inflation', and the so-called attempts to combat inflation by imposing price controls are only likely to make matters worse because it disorganises all economic activity even more than open inflation. Moreover it has no beneficial effect whatever, even in the short run (except for the receivers of the additional money), and leads straight to a centrally directed economy.

Let me repeat in conclusion that inflation has of course many other bad effects, much more painful than most people understand who have not lived through one; but that the most serious and at the same time the least understood is that in the long run it inevitably produces extensive unemployment. It is simply not true, as some economists have suggested, that so long as unemployment exists, an increase in aggregate demand does only good and no harm. That may be true in

18 Paul A. Samuelson, *Economics: an Introductory Analysis*, New York, 1948, p. 282: 'If price increases could be held down to, say, less than 5 per cent per year, such a mild steady inflation need not cause too great concern.'

the short run but not in the long run. We do not have the choice between inflation and unemployment. It is like over-eating and indigestion: though over-eating may be very pleasant while it proceeds, the indigestion will invariably follow.

4 Choice in currency: a way to stop inflation¹⁹

I

The chief root of our present monetary troubles is, of course, the sanction of scientific authority which Lord Keynes and his disciples have given to the age-old superstition that by increasing the aggregate of money expenditure we can lastingly ensure prosperity and full employment. It is a superstition against which economists before Keynes had struggled with some success for at least two centuries.²⁰ It had governed most of earlier history. This history, indeed, has been largely a history of inflation; significantly, it was only during the rise of the prosperous modern industrial systems and during the rule of the gold standard that over a period of about two hundred years (in Britain from about 1714 to 1914, and in the United States from about 1749 to 1939) prices were at the end about where they had been at the beginning. During this unique period of monetary stability the gold standard had imposed upon monetary authorities a discipline which prevented them from abusing their powers, as they have done at nearly all other times. Experience in other parts of the world does not seem to have been very different: I have been told that a Chinese law attempted to prohibit paper money for all times (of course, ineffectively), long before the Europeans ever invented it!

It was John Maynard Keynes, a man of great intellect but limited knowledge of economic theory, who ultimately succeeded in rehabilitating a view long the preserve of cranks with whom he openly sympathised. He had attempted by a succession of new theories to justify the same, superficially persuasive, intuitive belief that had been held by many practical men before, but that will not withstand rigorous analysis of the price mechanism: just as there cannot be a uniform price for all kinds of labour, an equality of demand and

19 Based on an address entitled 'International Money' delivered to the Geneva Gold and Monetary Conference on 25 September 1975 at Lausanne, Switzerland, and published as a brochure with this title by the Institute of Economic Affairs, London, 1976.

20 See note at the end of this chapter, p. 229.

supply for labour in general cannot be secured by managing *aggregate* demand. The volume of employment depends on the correspondence of demand and supply *in each sector* of the economy, and therefore on the wage structure and the distribution of demand between the sectors. The consequence is that over a longer period the Keynesian remedy does not cure unemployment but makes it worse.

The claim of an eminent public figure and brilliant polemicist to provide a cheap and easy means of permanently preventing serious unemployment conquered public opinion and, after his death, professional opinion too. Sir John Hicks has even proposed that we call the third quarter of this century, 1950 to 1975, the age of Keynes, as the second quarter was the age of Hitler.²¹ I do not feel that the harm Keynes did is really so great as to justify *that* description. But it is true that, so long as his prescriptions seemed to work, they operated as an orthodoxy which it appeared useless to oppose.

I have often blamed myself for having given up the struggle after I had spent much time and energy criticising the first version of Keynes's theoretical framework. Only after the second part of my critique had appeared did he tell me he had changed his mind and no longer believed what he had said in the *Treatise on Money* of 1930 (somewhat unjustly towards himself, as it seems to me, since I still believe that volume II of the *Treatise* contains some of the best work he ever did). At any rate, I felt it then to be useless to return to the charge, because he seemed so likely to change his views again. When it proved that this new version – the *General Theory* of 1936 – conquered most of the professional opinion, and when in the end even some of the colleagues I most respected supported the wholly Keynesian Bretton Woods agreement, I largely withdrew from the debate, since to proclaim my dissent from the near-unanimous views of the orthodox phalanx would merely have deprived me of a hearing on other matters about which I was more concerned at the time. (I believe, however, that, so far as some of the best British economists were concerned, their support of Bretton Woods was determined more by a misguided patriotism – the hope that it would benefit Britain in her post-war difficulties – than by a belief that it would provide a satisfactory international monetary order.)

²¹ John Hicks, *The Crisis in Keynesian Economics*, Oxford, 1974, p. 2.

I wrote 36 years ago on the crucial point of difference:

It may perhaps be pointed out that it has, of course, never been denied that employment can be rapidly increased, and a position of 'full employment' achieved in the shortest possible time, by means of monetary expansion – least of all by those economists whose outlook has been influenced by the experience of a major inflation. All that has been contended is that the kind of full employment which can be created in this way is inherently unstable, and that to create employment by these means is to perpetuate fluctuations. There may be desperate situations in which it may indeed be necessary to increase employment at all costs, even if it be only for a short period – perhaps the situation in which Dr Brüning found himself in Germany in 1932 was such a situation in which desperate means would have been justified. But the economist should not conceal the fact that to aim at the maximum of employment which can be achieved in the short run by means of monetary policy is essentially the policy of the desperado who has nothing to lose and everything to gain from a short breathing space.²²

To this I would now like to add, in reply to the constant deliberate misrepresentation of my views by politicians, who like to picture me as a sort of bogey whose influence makes conservative parties dangerous, what I regularly emphasise and stated nine months ago in my Nobel Memorial Prize Lecture at Stockholm in the following words:

The truth is that by a mistaken theoretical view we have been led into a precarious position in which we cannot prevent substantial unemployment from re-appearing: not because, as my view is sometimes misrepresented, this unemployment is deliberately brought about as a means to combat inflation, but because it is now bound to appear as a deeply regrettable but *inescapable* consequence of the mistaken policies of the past as soon as inflation ceases to accelerate.²³

²² F. A. Hayek, *Profits, Interest and Investment*, London, 1939, p. 63n.

²³ F. A. Hayek, 'The Pretence of Knowledge', Nobel Memorial Prize Lecture 1974, reprinted above, pp. 23–34.

The Campaign Against Keynesian Inflation

This manufacture of unemployment by what are called 'full employment policies' is a complex process. In essence it operates by temporary changes in the distribution of demand, drawing both unemployed and already employed workers into jobs which will disappear with the end of inflation. In the periodically recurrent cases of the pre-1914 years the expansion of credit during the preceding boom served largely to finance industrial investment, and the over-development and subsequent unemployment occurred mainly in the industries producing capital equipment. In the engineered inflation of the last decades things were more complex.

What will happen during a major inflation is illustrated by an observation from the early 1920s which many of my Viennese contemporaries will confirm: in the city many of the famous coffee houses were driven from the best corner sites by new bank offices and returned after the 'stabilisation crisis', when the banks had contracted or collapsed and thousands of bank clerks swelled the ranks of the unemployed.

The whole theory underlying the full employment policies has by now of course been thoroughly discredited by the experience of the last few years. In consequence the economists are also beginning to discover its fatal intellectual defects which they ought to have seen all along. Yet I fear the theory will still give us a lot of trouble: it has left us with a lost generation of economists who have learnt nothing else. One of our chief problems will be to protect our money against those economists who will continue to offer their quack remedies, the short-term effectiveness of which will continue to ensure them popularity. It will survive among blind doctrinaires who have always been convinced that they have the key to salvation.

In consequence, though the rapid descent of Keynesian doctrine from intellectual respectability can be denied no longer, it still gravely threatens the chances of a sensible monetary policy. Nor have people yet fully realised how much irreparable damage it has already done, particularly in Britain, the country of its origin. The sense of financial respectability which once guided British monetary policy has rapidly disappeared. From a model to be imitated Britain has in a few years descended to be a warning example for the rest of the world. This decay was recently brought home to me by a curious incident: I found in a drawer of my desk a British penny dated 1863 which a short 12 years ago, that is, when it was exactly a hundred years old, I had received as change from a London bus

conductor and had taken back to Germany to show to my students what long-run monetary stability meant. I believe they were duly impressed. But they would laugh in my face if I now mentioned Britain as an instance of monetary stability.

3

A wise man should perhaps have foreseen that less than 30 years after the nationalisation of the Bank of England the purchasing power of the pound sterling would have been reduced to less than one-quarter of what it had been at that date. As has sooner or later happened everywhere, government control of the quantity of money has once again proved fatal. I do not want to question that a very intelligent and wholly independent national or international monetary authority *might* do better than an international gold standard, or any other sort of automatic system. But I see not the slightest hope that any government, or any institution subject to political pressure, will ever be able to act in such a manner.

I never had much illusion in this respect, but I must confess that in the course of a long life my opinion of governments has steadily worsened: the more intelligently they try to act (as distinguished from simply following an established rule), the more harm they seem to do – because once they are known to aim at particular goals (rather than merely maintaining a self-correcting spontaneous order) the less they can avoid serving sectional interests. And the demands of all organised group interests are almost invariably harmful – except when they protest against restrictions imposed upon them for the benefit of other group interests. I am by no means reassured by the fact that, at least in some countries, the civil servants who run affairs are mostly intelligent, well-meaning, and honest men. The point is that, if governments are to remain in office in the prevailing political order, they have no choice but to use their powers for the benefit of particular groups – and one strong interest is always to get additional money for extra expenditure. However harmful inflation is in general seen to be, there are always substantial groups of people, including some for whose support collectivist-inclined governments primarily look, which in the short run greatly gain by it – even if only by staving off for some time the loss of an income which it is human nature to believe will be only temporary if they can tide over the emergency.

The Campaign Against Keynesian Inflation

The pressure for more and cheaper money is an ever-present political force which monetary authorities have never been able to resist, unless they were in a position credibly to point to an absolute obstacle which made it impossible for them to meet such demands. And it will become even more irresistible when these interests can appeal to an increasingly unrecognisable image of St Maynard. There will be no more urgent need than to erect new defences against the onslaughts of popular forms of Keynesianism, that is, to replace or restore those restraints which, under the influence of his theory, have been systematically dismantled. It was the main function of the gold standard, of balanced budgets, of the necessity for deficit countries to contract their circulation, and of the limitation of the supply of 'international liquidity', to make it impossible for the monetary authorities to capitulate to the pressure for more money. And it was exactly for that reason that all these safeguards against inflation, which had made it possible for representative governments to resist the demands of powerful pressure groups for more money, have been removed at the instigation of economists who imagined that, if governments were released from the shackles of mechanical rules, they would be able to act wisely for the general benefit.

I do not believe we can now remedy this position by *constructing* some new international monetary order, whether a new international monetary authority or institution, or even an international agreement to adopt a particular mechanism or system of policy, such as the classical gold standard. I am fairly convinced that any attempt now to reinstate the gold standard by international agreement would break down within a short time and merely discredit the ideal of an international gold standard for even longer. Without the conviction of the public at large that certain immediately painful measures are occasionally necessary to preserve reasonable stability, we cannot hope that any authority which has power to determine the quantity of money will long resist the pressure for, or the seduction of, cheap money.

The politician, acting on a modified Keynesian maxim that in the long run we are all out of office, does not care if his successful cure of unemployment is bound to produce more unemployment in the future. The politicians who will be blamed for it will not be those who created the inflation but those who stopped it. No worse trap could have been set for a democratic system in which the government is

forced to act on the beliefs that the people think to be true. Our only hope for a stable money is indeed now to find a way to protect money from politics.

With the exception only of the 200-year period of the gold standard, practically all governments of history have used their exclusive power to issue money in order to defraud and plunder the people. There is less ground than ever for hoping that, so long as the people have no choice but to use the money their government provides, governments will become more trustworthy. Under the prevailing systems of government, which are supposed to be guided by the opinion of the majority but under which in practice any sizeable group may create a 'political necessity' for the government by threatening to withhold the votes it needs to claim majority support, we cannot entrust dangerous instruments to it. Fortunately we need not yet fear, I hope, that governments will start a war to please some indispensable group of supporters, but money is certainly too dangerous an instrument to leave to the fortuitous expediency of politicians – or, it seems, economists.

What is so dangerous and ought to be done away with is not governments' right to issue money but the *exclusive* right to do so and their power to force people to use it and to accept it at a particular price. This monopoly of government, like the postal monopoly, has its origin not in any benefit it secures for the people but solely in the desire to enhance the coercive powers of government. I doubt whether it has ever done any good except to the rulers and their favourites. All history contradicts the belief that governments have given us a safer money than we would have had without their claiming an exclusive right to issue it.

4

But why should we not let people choose freely what money they want to use? By 'people' I mean the individuals who ought to have the right to decide whether they want to buy or sell for francs, pounds, dollars, D-marks, or ounces of gold. I have no objection to governments issuing money, but I believe their claim to a *monopoly*, or their power to *limit* the kinds of money in which contracts may be concluded within their territory, or to determine the *rates* at which monies can be exchanged, to be wholly harmful.

At this moment it seems that the best thing we could wish govern-

ments to do is for, say, all the members of the European Economic Community, or, better still, all the governments of the Atlantic Community, to bind themselves mutually not to place any restrictions on the free use within their territories of one another's – or any other – currencies, including their purchase and sale at any price the parties decide upon, or on their use as accounting units in which to keep books. This, and not a Utopian European Monetary Unit, seems to me now both the practicable and the desirable arrangement to aim at. To make the scheme effective it would be important, for reasons I shall state later, also to provide that banks in one country be free to establish branches in any of the others.

This suggestion may at first seem absurd to all brought up on the concept of 'legal tender'. Is it not essential that the law designate one kind of money as the legal money? This is, however, true only to the extent that, if the government does issue money, it must also say what must be accepted in discharge of debts incurred in that money. And it must also determine in what manner certain non-contractual legal obligations, such as taxes or liabilities for damage or torts, are to be discharged. But there is no reason whatever why people should not be free to make contracts, including ordinary purchases and sales, in any kind of money they choose, or why they should be obliged to sell against any particular kind of money.

There could be no more effective check against the abuse of money by the government than if people were free to refuse any money they distrusted and to prefer money in which they had confidence. Nor could there be a stronger inducement to governments to ensure the stability of their money than the knowledge that, so long as they kept the supply below the demand for it, that demand would tend to grow. Therefore, let us deprive governments (or their monetary authorities) of all power to protect their money against competition: if they can no longer conceal that their money is becoming bad, they will have to restrict the issue.

The first reaction of many readers may be to ask whether the effect of such a system would not according to an old rule be that the bad money would drive out the good. But this would be a misunderstanding of what is called Gresham's Law. This indeed is one of the oldest insights into the mechanism of money, so old that 2,400 years ago Aristophanes, in one of his comedies, could say that it was with politicians as it is with coins, because the bad ones drive out the

good.²⁴ But the truth which apparently even today is not generally understood is that Gresham's Law operates *only* if the two kinds of money have to be accepted at a prescribed rate of exchange. Exactly the opposite will happen when people are free to exchange the different kinds of money at whatever rate they can agree upon. This was observed many times during the great inflations when even the most severe penalties threatened by governments could not prevent people from using other kinds of money – even commodities like cigarettes and bottles of brandy rather than the government money – which clearly meant that the good money was driving out the bad.²⁵

Make it merely legal and people will be very quick indeed to refuse to use the national currency once it depreciates noticeably, and they will make their dealings in a currency they trust. Employers, in particular, would find it in their interest to offer, in collective agreements, not wages anticipating a foreseen rise of prices but wages in a currency they trusted and could make the basis of rational calculation. This would deprive government of the power to counteract excessive wage increases, and the unemployment they would cause, by depreciating their currency. It would also prevent employers from conceding such wages in the expectation that the national monetary authority would bail them out if they promised more than they could pay.

There is no reason to be concerned about the effects of such an arrangement on ordinary men who know neither how to handle nor how to obtain strange kinds of money. So long as the shopkeepers knew that they could turn it instantly at the current rate of exchange into whatever money they preferred, they would be only too ready to sell their wares at an appropriate price for any currency. But the

24 Aristophanes, *Frogs*, 891–8, in Frere's translation:

Ofentimes we have reflected on a similar abuse
In the choice of men for office, and of coins for common use,
For our old and standard pieces, valued and approved and tried,
Here among the Grecian nations, and in all the world besides,
Recognised in every realm for trusty stamp and pure assay,
Are rejected and abandoned for the trash of yesterday,
For a vile adulterated issue, drossy, counterfeit and base,
Which the traffic of the city passes current in their place.

About the same time, the philosopher Diogenes called money 'the legislators' game of dice'!

25 During the German inflation after the First World War, when people began to use dollars and other solid currencies in the place of marks, a Dutch financier (if I rightly remember, Mr Vissering) asserted that Gresham's Law was false and the opposite true.

malpractices of government would show themselves much more rapidly if prices rose only in terms of the money issued by it, and people would soon learn to hold the government responsible for the value of the money in which they were paid. Electronic calculators, which in seconds would give the equivalent of any price in any currency at the current rate, would soon be used everywhere. But, unless the national government all too badly mismanaged the currency it issued, it would probably continue to be used in everyday retail transactions. What would be affected mostly would be not so much the use of money in daily payments as the willingness to *hold* different kinds of money. It would mainly be the tendency of all business and capital transactions rapidly to switch to a more reliable standard (and to base calculations and accounting on it) which would keep national monetary policy on the right path.

5

The upshot would probably be that the currencies of those countries trusted to pursue a responsible monetary policy would tend to displace gradually those of a less reliable character. The reputation of financial righteousness would become a jealously guarded asset of all issuers of money, since they would know that even the slightest deviation from the path of honesty would reduce the demand for their product.

I do not believe there is any reason to fear that in such a competition for the most general acceptance of a currency there would arise a tendency to deflation or an increasing value of money. People will be quite as reluctant to borrow or incur debts in a currency expected to appreciate as they will hesitate to lend in a currency expected to depreciate. The convenience of use is decidedly in favour of a currency which can be expected to retain an approximately stable value. If governments and other issuers of money have to compete in inducing people to *hold* their money, and make long-term contracts in it, they will have to create confidence in its long-run stability.

Where I am not sure is whether in such a competition for reliability any government-issued currency would prevail, or whether the predominant preference would not be in favour of some such units as ounces of gold. It seems not unlikely that gold would ultimately re-assert its place as 'the universal prize in all countries, in all cultures, in all ages', as Jacob Bronowski has recently called it in his

brilliant book on *The Ascent of Man*,²⁶ if people were given complete freedom to decide what to use as their standard and general medium of exchange – more likely, at any rate, than as the result of any organised attempt to restore the gold standard.

The reason why, in order to be fully effective, the free international market in currencies should extend also to the services of banks is, of course, that bank deposits subject to cheque represent today much the largest part of the liquid assets of most people. Even during the last hundred years or so of the gold standard this circumstance increasingly prevented it from operating as a fully international currency, because any flow in or out of a country required a proportionate expansion or contraction of the much larger superstructure of the national credit money, the effect of which falls indiscriminately on the whole economy instead of merely increasing or decreasing the demand for the particular goods which was required to bring about a new balance between imports and exports. With a truly international banking system money could be transferred directly without producing the harmful process of secondary contractions or expansions of the credit structure.

It would probably also impose the most effective discipline on governments if they felt immediately the effects of their policies on the attractiveness of investment in their country. I have just read in an English Whig tract more than 250 years old: 'Who would establish a Bank in an arbitrary country, or trust his money constantly there?'²⁷ The tract, incidentally, tells us that yet another 50 years earlier a great French banker, Jean Baptiste Tavernier, invested all the riches he had amassed in his long rambles over the world in what the authors described as 'the barren rocks of Switzerland'; when asked why by Louis XIV, he had the courage to tell him that 'he was willing to have something which he could call his own'! Switzerland, apparently, laid the foundations of her prosperity earlier than most people realise.

I prefer the freeing of all dealings in money to any sort of monetary union also because the latter would demand an international monetary authority which I believe is neither practicable nor even desirable – and hardly to be more trusted than a national authority.

²⁶ Jacob Bronowski, *The Ascent of Man*, London, 1973.

²⁷ Thomas Gordon and John Trenchard, *The Cato Letters*, letters dated 12 May 1722 and 3 February 1721 respectively, published in collected editions, London, 1724, and later.

It seems to me that there is a very sound element in the widespread inclination to confer sovereign powers, or at least powers to command, on any international authority. What we need are not international authorities possessing powers of direction, but merely international bodies (or, rather, international treaties which are effectively enforced) which can prohibit certain actions of governments that will harm other people. Effectively to prohibit all restrictions on dealings in (and the possession of) different kinds of money (or claims for money) would at last make it possible that the absence of tariffs, or other obstacles to the movement of goods and men, will secure a genuine free trade area or common market – and do more than anything else to create confidence in the countries committing themselves to it. It is now urgently needed to counter that monetary nationalism which I first criticised almost 40 years ago²⁸ and which is becoming even more dangerous when, as a consequence of the close kinship between the two views, it is turning into monetary socialism. I hope it will not be too long before complete freedom to deal in any money one likes will be regarded as the essential mark of a free country.²⁹

You may feel that my proposal amounts to no less than the abolition of monetary policy; and you would not be quite wrong. As in other connections, I have come to the conclusion that the best the state can do with respect to money is to provide a framework of legal rules within which the people can develop the monetary institutions that best suit them. It seems to me that if we could prevent governments from meddling with money, we would do more good than any government has ever done in this regard. And private enterprise would probably have done better than the best they have ever done.

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Lord Keynes has always appeared to me a kind of new John Law. Law, like Keynes, had been a financial genius who made some real

²⁸ *Monetary Nationalism and International Stability*, London, 1937.

²⁹ It may at first seem as if this suggestion were in conflict with my general support of fixed exchange rates under the present system. But this is not so. Fixed exchange rates seem to me to be necessary so long as national governments have a monopoly of issuing money in their territory in order to place them under a very necessary discipline. But this is of course no longer necessary when they have to submit to the discipline of competition with other issuers of money equally current within their territory.

contributions to the theory of money. (Apart from an interesting and original discussion of the factors determining the value of money, Law gave the first satisfactory account of the cumulative growth of acceptability once a commodity was widely used as a medium of exchange.) And like Law Keynes could never free himself from the false popular belief that, as Law expressed it, 'as this addition to the money will employ the people that are now idle, and those now employed to more advantage, so the product will be increased, and manufacture advanced'.³⁰

It was against the sort of view represented by Law that Richard Cantillon and David Hume began the development of modern monetary theory. Hume in particular put the central point at issue by saying that, in the process of inflation, 'it is only in this interval or intermediate situation between the acquisition of money and the rise of prices that the increasing quantity of gold and silver is favourable to industry'.³¹ It is this work we shall have to do again after the Keynesian flood.

In one sense, however, it would be somewhat unfair to blame Lord Keynes too much for the developments after his death. I am certain he would have been – whatever he had said earlier – a leader in the fight against inflation. But developments, at least in Britain, were also mainly determined by the version of Keynesianism published under the name of Lord Beveridge for which (since he himself understood no economics whatever) his scientific advisers must bear the responsibility. Perhaps, so far as the influence on British policy is concerned, I ought to have spoken of the Kaldorian rather than the Keynesian inflation.

Since I have been censured for charging Keynes in an earlier version of this with a limited knowledge of economic theory, I must become more specific. I believe that his inadequate knowledge of the theory of international trade or of the theory of capital is fairly widely recognised. His deficiencies in the theory of money which I had in mind were by no means his unfamiliarity with the discussion of the relation between money and interest by Swedish and Austrian scholars – that would until the 1930s have been true of most English and US economists – though it was rather a misfortune that the

³⁰ John Law, *Money and Trade Considered with a Proposal for Supplying the Nations with Money* (1705), in *A Collection of Scarce and Valuable Tracts*, Somers Collection, vol. XIII, London, 1815, p. 821.

³¹ David Hume, 'On money', *Essays*, III, ed. T. H. Green and T. H. Grose, London, 1875.

chief works of Wicksell and Mises in this field were reviewed in the *Economic Journal* by Pigou and Keynes, neither of whom understood enough German really to be able to follow the argument. What I had in mind concerning Keynes were the surprising gaps in his knowledge of nineteenth-century English economic theory (and economic history). I had to tell him of the passage by Ricardo quoted earlier in this volume (p. 199) which, if he had known it, might well have helped him to win the battle against the return to gold at the old parity, and of John Stuart Mill's claim to have regarded in his youth 'full employment at high wages' as the chief goal of economic policy (see p. 207 above). Apart from the Bullion Report and Ricardo's essays provoked by it, so far as I could discover Keynes was wholly unaware of the extensive discussions of that period and particularly of the great work of Henry Thornton, as well as of those later decisive contributions by English writers to the theory of the value of money such as W. N. Senior and J. E. Cairnes. Nor did he appear to have ever heard of the long row of English inflationist writers of the last century who might possibly have inspired but more likely would have deterred him: I believe he would have rapidly spotted in their writings the elementary fallacy of believing that employment was a simple function of aggregate demand, and would not have wasted his energies on refinements of the explanation of the mechanism through which changes in the quantity of money would affect aggregate demand.

I hope somebody will some day write a history of inflationism from John Law to John Keynes. It would show how the uncritical acceptance of the belief of such a simple relation between aggregate demand and employment has throughout the last 150 years again and again caused much waste of ingenious intellectual effort.

CHAPTER FOURTEEN

*The New Confusion About 'Planning'**

I

It is a regrettable but undeniable fact that economics, more than other scientific disciplines, is liable to recurrent fashions and fads, the periodic re-intrusion into professional discussion of popular superstitions which earlier generations of economists had successfully driven back into the circles of cranks and demagogues. Inflationism is one of these irrepressible themes which again and again attract some half-trained economists, and the advocacy of collectivist economic planning has become another since it first became popular under this name through its use by the Russian communists. The conception, originally developed by some of the organizers of the German war economy during World War I, was thoroughly discussed by economists in the 1920s and 1930s; and all those familiar with that discussion will agree that it greatly contributed to the clarification of concepts and that one ought today to be entitled to assume that no competent economist who lived through that discussion would ever again talk about the issue in terms of the vague and confused concepts initially bandied about.

Nobody is of course bound to accept what seemed then the conclusions of those discussions, which were very unfavorable to central planning: in any scientific discipline the discovery of new facts or new considerations may lead to the revision of conclusions arrived at in the past. But what one must expect from a professional economist of recognized standing is that he not talk as if those past discussions had never taken place, and that he not use expressions in the ambiguous and misleading senses which had been painfully eliminated in the course of the earlier discussion.

It is in this respect that the pronouncements of Professor Wassily

* Reprinted from *The Morgan Guaranty Survey*, New York, January 1976.

Leontief, recently of Harvard University, in the course of the reopened debate on the subject are so bitterly disappointing. That a senior economist of international reputation should again use the term 'planning' in all the ambiguity in which one would expect it to be used these days only by less responsible persons as a propaganda catchword, and that he should simply disregard the essential, if perhaps provisional, conclusions that emerged first from the discussion of central economic planning in the 1920s and 1930s and then from the no less intensive discussion of 'indicative planning' more recently, is wholly inexcusable. Although the statements with which I shall deal in this paper have been issued mostly on behalf of an 'Initiative Committee for National Economic Planning,' it would seem that for the economic argument embodied in those statements Professor Leontief must bear the principal responsibility. He is the visible prime mover of the Committee and he clearly is the economist among its spokesmen who has the most relevant background of professional work. His Co-Chairman, Mr Leonard Woodcock, President of the United Auto Workers, is not, of course, a professional economist and has publicly acknowledged that he did not start to think seriously about economic planning on the part of government until the oil embargo. Indeed, some of the comments he has made rather suggest that he has not thought much about it even now.

2

The worst confusion by which the new American agitation for 'planning' is permeated, not excluding the various statements by Professor Leontief himself, was most naïvely expressed in the first sentence of a lead editorial in the 23 February 1975 issue of *The New York Times*. It asked 'Why is planning considered a good thing for individuals and business but a bad thing for the national economy?'

It is almost unbelievable that at this date an honest seeker after truth should innocently become the victim of the equivocal use of the word planning and believe that the discussion about economic planning refers to the question of whether people should plan their affairs and not to the question of *who* should plan their affairs. In reply to this I can only repeat what more than 30 years ago I had, as I even then believed at unnecessary length, explained in a popular book:¹

¹ In chapter III of *The Road to Serfdom*, Chicago, Ill., 1944, pp. 34ff.

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'Planning' owes its popularity largely to the fact that everybody desires, of course, that we should handle our common problems as rationally as possible and that, in so doing, we should use as much foresight as we can command. In this sense everybody who is not a complete fatalist is a planner, every political act is (or ought to be) an act of planning, and there can be differences only between good and bad, between wise and foresighted and foolish and shortsighted planning. An economist, whose whole task is the study of how men actually do and how they might plan their affairs, is the last person who could object to planning in this general sense. But it is not in this sense that our enthusiasts for a planned society now employ this term, nor merely in this sense that we must plan if we want the distribution of income or wealth to conform to some particular standard. According to the modern planners, and for their purposes, it is not sufficient to design the most rational permanent framework within which the various activities would be conducted by different persons according to their individual plans. This liberal plan, according to them, is no plan – and it is indeed, not a plan designed to satisfy particular views about who should have what. What our planners demand is a central direction of all economic activity according to a single plan, laying down how the resources of society should be 'consciously directed' to serve particular ends in a definite way.

The dispute between the modern planners and their opponents is, therefore, *not* a dispute on whether we ought to choose intelligently between the various possible organizations of society; it is not a dispute on whether we ought to employ foresight and systematic thinking in planning our common affairs. It is a dispute about what is the best way of so doing. The question is whether for this purpose it is better that the holder of coercive power should confine himself in general to creating conditions under which the knowledge and initiative of individuals are given the best scope so that *they* can plan most successfully; or whether a rational utilization of our resources requires *central* direction and organization of all our activities according to some consciously constructed 'blueprint.' The socialists of all parties have appropriated the term 'planning' for planning of the latter type, and it is now generally accepted in this sense. But though this is meant to suggest that

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this is the only rational way of handling our affairs, it does not, of course, prove this. It remains the point on which the planners and the liberals disagree.

(The term 'liberal' is of course used here and also in an earlier part of the quote in the classical English, not in the modern American, sense.)

I should, perhaps, explain that this was written in a book concerned with the moral and political consequences of economic planning, written 10 years after the great discussion of the question of its economic efficiency or inefficiency to which I shall now have to turn. And I might, perhaps, also add that J. A. Schumpeter then accused me with respect to that book of 'politeness to a fault' because I 'hardly ever attributed to opponents anything beyond intellectual error.'² I mention this as an apology in case that, on encountering the same empty phrases more than 30 years later, I should not be able to command quite the same patience and forbearance.

3

The great debate of the 1920s and 1930s turned mainly on the question of the justification of the socialist hopes of increasing productivity by substituting central planning for marketplace competition as the instrument for guiding economic activity. I don't think it can now be gainsaid by anybody who has studied these discussions that those hopes were shattered and that it came to be recognized that an attempt at centralized collectivist planning of a large economic system was on the contrary bound greatly to decrease productivity. Even the communist countries have to various degrees felt compelled to reintroduce competition in order to provide both incentives and a set of meaningful prices to guide resource use. We can deal with those older ideals of centralized planning fairly briefly since even the proponents of the schemes under discussion today disclaim that they aim at a system of planning of the kind in which a central authority commands what the individual enterprise is to do — although it must remain doubtful whether what they aim at can be achieved without this sort of regimentation.

We shall therefore content ourselves, so far as the efficiency argument for central direction is concerned, with stating very briefly why such an argument is erroneous.

² J. A. Schumpeter, *The Journal of Political Economy*, vol. 54, 1946, p. 269.

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The chief reason why we cannot hope by central direction to achieve anything like the efficiency in the use of resources which the market makes possible is that the economic order of any large society rests on a utilization of the knowledge of particular circumstances widely dispersed among thousands or millions of individuals. Of course, there always are many facts which the individual conductor of a business ought to know in order to be able to make the right decisions but which he can never know directly. But among the alternative possibilities for coping with these difficulties – either conveying to a central directing authority all the relevant information possessed by the different individuals, or communicating to the separate individuals as much as possible of the information relevant for their decisions – we have discovered a solution for the second task only: the market and the competitive determination of prices have provided a procedure by which it is possible to convey to the individual managers of productive units as much information in condensed form as they need in order to fit their plans into the order of the rest of the system. The alternative of having all the individual managers of businesses convey to a central planning authority the knowledge of particular facts which they possess is clearly impossible – simply because they never can know beforehand which of the many concrete circumstances about which they have knowledge or could find out might be of importance to the central planning authority.

We have come to understand that the market and the price mechanism provide in this sense a sort of discovery procedure which both makes the utilization of more facts possible than any other known system, and which provides the incentive for constant discovery of new facts which improve adaptation to the ever-changing circumstances of the world in which we live. Of course this adaptation is never as perfect as the mathematical models of market equilibrium suggest; but it is certainly much better than any which we know how to bring about by any other means. I believe there is substantive agreement on these points among serious students of these matters.

4

But, curiously, one recently has begun to hear more and more frequently a new argument which inverts the historical role that the market and the price mechanism have played in maximizing order

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and efficiency in individual economies and in the world economy at large. It is contended that the market may have been an adequate mechanism of coordination under earlier, simpler conditions, but that in modern times economic systems have become so complex that we no longer can rely on the spontaneous forces of the market for the ordering of economic priorities but must resort instead to central planning or direction. Such an argument carries some superficial plausibility, but, on examination, turns out to be particularly silly. In fact, of course, the very complexity which the structure of modern economic systems has assumed provides the strongest argument against central planning. It is becoming progressively less and less imaginable that any one mind or planning authority could picture or survey the millions of connections between the ever more numerous interlocking separate activities which have become indispensable for the efficient use of modern technology and even the maintenance of the standard of life Western man has achieved.

That we have been able to achieve a reasonably high degree of order in our economic lives despite modern complexities is *only* because our affairs have been guided, not by central direction, but by the operations of the market and competition in securing the mutual adjustment of separate efforts. The market system functions because it is able to take account of millions of separate facts and desires, because it reaches with thousands of sensitive feelers into every nook and cranny of the economic world and feeds back the information acquired in coded form to a 'public information board.' What the marketplace and its prices give most particularly is a continuing updating of the ever changing relative scarcities of different commodities and services. In other words, the complexity of the structure required to produce the real income we are now able to provide for the masses of the Western world – which exceeds anything we can survey or picture in detail – could develop *only* because we did *not* attempt to plan it or subject it to any central direction, but left it to be guided by a spontaneous ordering mechanism, or a self-generating order, as modern cybernetics calls it.

Apart from such occasional flare-ups of old misunderstandings in lay circles, the efficiency argument for central economic planning has almost universally been abandoned. If central direction of all

economic activity is still sometimes demanded by serious students, this is on the different and logical argument that only in this manner could the distribution of income and wealth between individuals and groups be made to conform to some preconceived moral standard. Apparently a good many idealist socialists would be prepared to tolerate a substantial sacrifice of material welfare if thereby what they regard as greater distributive or social justice could be achieved.

The objections to this demand for greater social justice, of course, must be and are of an entirely different character from those against the presumed greater efficiency of a planned system. There are two different fundamental objections to these demands, each of which seems to me to be decisive. The first is that no agreement exists (or appears even conceivable) about the kind of distribution that is desirable or morally demanded; the second is that whatever particular distributive scheme were to be aimed at could in fact be realized only in a strictly totalitarian order in which individuals would not be allowed to use their own knowledge for their own purposes but would have to work under orders on jobs assigned to them for purposes determined by government authority.

Freedom in the choice of activity as we know it is possible only if the reward to be expected from any job undertaken corresponds to the value the products will have to those fellow men to whom they actually are supplied. But this value often will unavoidably bear no relation whatever to the deserts, needs, or other claims of the producer. The belief in a society in which the remuneration of individuals is made to correspond to something called 'social justice' is a chimera which is threatening to seduce modern democracy to accept a system that would involve a disastrous loss of personal freedom. George Orwell and others ought by now to have taught even the layman what to expect from a system of such kind.

The new American advocates of planning will claim, however, that they know all this and that they never have advocated a system of central direction of individual economic activities and even have said so. Yet it is very doubtful whether what they do advocate would not in fact lead that way. They leave a great deal obscure and it is precisely this state of muddle which is the sure way to hell. To be sure,

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the statement of the Initiative Committee for National Economic Planning (*The Case for Planning*) says that:

It should be clear that the planning Office would not set specific goals for General Motors, General Electric, General Foods, or any other individual firm. But it would indicate the number of cars, the number of generators, and the quantity of frozen foods we are likely to require in, say, five years, and it would try to induce the relevant industries to act accordingly.

But one cannot help wondering how that 'inducement' of an 'industry' would work if, as the Initiative Committee's statement at another point makes clear, the 'means of influencing' the decisions of industry would include 'selective credit controls, guidance of basic capital flows, limits to the use of air, water and land, and *mandatory resource allocation* [*italics added*].'

Indeed, as one reads on, it becomes increasingly difficult to find out what precisely the authors of the statement mean by National Economic Planning. Nor, in spite of its magniloquent language, is the text of the proposed Balanced Growth and Economic Planning Act of 1975, inspired by the Committee and introduced in the Senate by Senators Humphrey, Jackson, Javits, McGovern and others, in this respect more revealing. While the bill is loquacious on the organization of a proposed Economic Planning Board, it is remarkably reticent on the methods and powers by which this body is to secure the execution of the 'balanced economic growth plan' which it is to draw up. About the elaborateness of the proposed machinery there can be no doubt. But what it is to do, and even more important what good it is to do, is difficult to discover.

Underlying some of these arguments for central economic planning appears to be the curious conception that it would be an advantage, enhancing orderliness and predictability, if the gross outline, a sort of skeleton, of the future distribution of resources between industries and firms could be laid down for a fairly long period. In other words, what is today one of the chief tasks of business, namely to guess as correctly as possible future developments in its particular concerns, would be handled in advance by government decision; only the details within this general framework would be handled by business. The hope apparently is thereby to increase the opportunity for managers of individual firms to make correct forecasts concerning the facts which will directly affect their activities. But the exact

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opposite would be the result of such planning: the uncertainty for managers would be greatly increased since the opportunity they would have to adapt to changes in their immediate environments (i.e. the quantities they would have to buy or sell and the prices at which they could do so) would depend on the 'mandatory resource allocation,' the 'guidance of basic capital flows,' etc., of the government planning office. For the manager of an individual firm, that halfway house between a completely planned system and a free market would indeed be the worst of all possible worlds, since his ability to make changes would become critically dependent on the red tape, delay, and unpredictability that are characteristic of bureaucratic decisions.

Implied in the argument for government planning of industrial and commercial activity is the belief that government (with an appropriately increased bureaucracy, of course) would be in a better position to predict the future needs of consumer goods, materials, and productive equipment than the individual firms. But is it really seriously contended that some government office (or, worse, some politically sensitive plan-making committee) would be more likely to foresee correctly the effects of future changes in tastes, the success of some new device or other technical innovation, changes in the scarcity of different raw materials, etc., on the amounts of some commodity that ought to be produced some years hence, than the producers or professional dealers of those things? Is it really likely that a National Planning Office would have a better judgement of 'the number of cars, the number of generators, and the quantities of frozen foods we are likely to require in, say, five years,' than Ford or General Motors, etc., and, even more important, would it even be desirable that various companies in an industry all act on the same guess? Is it not the very rationale of the method of competition that we allow those who have shown the greatest skill in forecasting to make preparations for the future?

7

In some sections of the statements made by the new advocates of 'planning' it becomes clear, however, that they are thinking mainly of another kind of planning, one which also has been thoroughly examined in the past in a discussion of which its present protagonists show as little awareness as of any other of the earlier scientific

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examinations of the problem. They show indeed a curious tendency to reject with disdain any suggestion that other peoples' experiences are relevant and insist, in Professor Leontief's words, that 'America cannot import a planning system from abroad. Countries differ in their planning methods because the countries themselves differ. We should want and expect a distinctive American style.'³

The earlier extensive discussion of these problems, from which the American proponents of that other sort of planning ought to have profited, took place chiefly in France in the early 1960s under the heading of 'indicative planning.' This conception had for a short while attracted much attention until it was decently buried after a thorough discussion at the Congress of French Speaking Economists in 1964 had revealed all the confusion and contradictions involved in it.⁴ There is no excuse whatever for ignorance of the upshot of these discussions which are clearly expounded in an excellent book in English by the late Dr Vera Lutz.⁵

The whole idea of 'indicative planning,' it turned out, rests on a curious combination, or rather confusion, of actions: making a prediction and setting a target. It was conceived that somehow a forecast of the quantities of the different commodities and services that will be produced would assist in determining the respective quantities which ought to be produced. The plan is conceived as a forecast by government at the achievement of which industry is to aim.

This sort of self-fulfilling prophecy may at first appear plausible, but on reflection it turns out, at least so far as a market economy based on competition is concerned, to be an absurdity. There is absolutely no reason at all to assume that announcement of a target will make it likely that the aggregates of output named in it will actually be realized by the efforts of a number of producers acting in competition. Nor is there any reason to think that the government, or anybody else, is in a better position than are individual managers acting as they now do to determine beforehand appropriate quantities of different outputs of different industries so that supplies and demands will match.

³ Quoted by Jack Friedman in *The New York Times* of 18 May 1975.

⁴ See particularly the contributions of Daniel Vilely and Maurice Allais to the *Congrès des économistes de langue Française*, May 1964.

⁵ Vera Lutz, *Central Planning for the Market Economy. An Analysis of the French Theory and Experience*, London, 1969. There is also a brief earlier statement by Dr Lutz, *French Planning*, Washington DC, 1965.

It is at this point that it becomes clear that the present revival of the planning idea in the United States is inspired by the input-output representations developed by Professor Leontief, and rests entirely, I am sorry to say, on a colossal overestimation by its author of what this technique can achieve. Before the Joint Economic Committee,⁶ Professor Leontief is reported to have explained that: 'First of all, getting information is a passive activity. It does not tell anybody what to do. Presenting a picture of how good a situation could be if everything is geared nicely is not a dictation.'

What Professor Leontief has in mind is clearly the technique of input-output tables which he himself has developed and which show in an instructive manner how, during some period in the past, various quantities of the products of different main branches of productive activity were used up by other branches. How the production of the tens of thousands of different things which are needed to produce a much smaller but still very large number of final products is determined by the market process is a matter of infinite complexity; and how order is brought about by a spontaneous mechanism which we do not fully understand is best illustrated by the very fact that we needed a Professor Leontief to give us even a very rough outline of the gross categories of commodities that in the past have passed from certain main groups of industries to others. One can understand that Professor Leontief wishes to refine and extend that technique and to construct input-output tables not for a few dozen but for a few thousand main classes of products. But the idea that such broad-outline information about what has happened in the past should be of significant help in deciding what ought to happen in the future is absurd. Even if we could get and organize information about the tens of thousands of different commodities actually produced in a specific past period, it would tell us about just one of an infinite number of possible input combinations that could produce a particular array of final products. It would tell us nothing at all about whether that specific combination of inputs or any other combination would be economical under changed conditions.

The source of belief in the value of input-output representations is the wholly wrong idea that the efficient use of resources is determined mainly by technological and not by economic considerations. That belief is evident in the fact that the advocates of planning visualize a

⁶ *Notes from the Joint Economic Committee*, Congress of the United States, vol. I, no. 19, 1 July 1975, p. 10.

team of a few thousand technical experts (perhaps 500 of them, as we learn from one of their spokesmen, at the cost of fifty million dollars a year)⁷ – most of them scientists and engineers rather than economists – working on planning for either the White House or Congress.⁸

8

This, I am afraid, betrays a complete lack of understanding of how in the complex order of a great society the efficient use of resources can alone be determined. There is no need, to take a very simple example, to command a particular quantity of a particular raw material in order to make a particular quantity of tarpaulins. In a situation in which the buyers of tarpaulins are indifferent to the raw material from which they are made, output can be maximized by choosing among hemp, flax, jute, cotton, nylon, etc., that material which costs least – that is, that which we can obtain for this purpose at the least sacrifice of other desirable products. That we can substitute one material for another in this and thousands of other cases (most of which in practice involve much greater complexities) is due to the circumstance that in a competitive market the relative prices of materials will enable us to determine readily how much more of one material than of another can be acquired at any given expenditure level.

There is, therefore, without a knowledge of prices, no possibility for determining from statistics of the past how much of different materials will be wanted in the future. And statistics of the past help us little to predict what prices will be and therefore what quantities will be needed of different commodities. It is therefore difficult to see what possible purpose would be served if it were announced beforehand what quantities of the different main classes of goods ought to be produced during a certain period of the future.

Even if it were possible, however, to say beforehand for every kind of commodity (or variety of a commodity) how much of it ought to be produced some years hence, it is difficult to see how this should lead the individual enterprises to produce just those amounts which together correspond to the desired quota – except, indeed, on the assumption that it is desired that the different firms should conspire

⁷ *Challenge*, May-June 1975, p. 6.

⁸ *The New York Times*, 28 February 1975, 'Diverse Group Advocates Economic Planning for U.S.'

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together to produce an output of a certain size (presumably that must be profitable to them). This, in fact, is the ideal which clearly guided the French advocates of 'indicative planning.' And one cannot help feeling sometimes that the new American advocates of planning have become the innocent dupes of some aspiring cartelists.

The whole idea of 'guiding' private industry by announcing beforehand what quantities of different goods firms ought to produce over a long period of the future is a muddle from beginning to end, wholly ineffective and misleading if left without sanctions constraining industry to do what it is predicted that it will do, destructive of the competitive market and free enterprise, and leading by its inherent logic straight to a socialist system. It seems to have attracted all those who since the era of the New Deal have hankered for a revival of President Franklin D. Roosevelt's National Resources Planning Board. Indeed, Professor Leontief has specifically couched his proposal in that way,⁹ thereby apparently hoping to give it an aura of progressiveness. Yet, to the economist aware of the serious discussions of these problems during the last 40 years these, far from being progressive, are antiquated ideas, completely out of date and in conflict with all that we have learned about the problems involved.

9

There is, however, yet another undercurrent discernible in the present demands for planning which indeed expresses a very legitimate dissatisfaction with prominent features of our economic life. This involves the hope for a kind of planning which would be highly desirable but which is not only wholly impossible politically in present conditions but also in direct conflict with the other demands for planning. The hope is for government to plan its own activities ahead for long periods, announce and commit itself to the execution of these plans, and thereby make government action more predictable. It would indeed be a great boon for industry if it could know a few years in advance what the government is likely to do. But this is, of course, wholly irreconcilable with the established use of

⁹ W. Leontief, 'For a National Economic Planning Board,' *The New York Times*, 14 March 1974. Indeed the most familiar figures among the signatories of the statement of the Initiative Committee for National Economic Planning — Chester Bowles, John K. Galbraith, L. H. Keyserling, Gunnar Myrdal, Robert R. Nathan, and Arthur Schlesinger, Jr. — seem to be men who long for a new N.R.A. and who in any other country would be called socialists, but in the U.S. call themselves liberals.

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economic measures for vote-catching purposes. Such an idea is even more irreconcilable with demands that government interfere with the activities of private enterprise to make them conform more closely to some plan government has made. The current agitation in the United States for a broad new planning initiative explicitly includes, in most of its variants, an indictment of government for its failure to think out its policies for the longer future. But the legitimacy of that indictment is not a justification for the demand that the same government which so notoriously fails to plan its own affairs should be entrusted with the planning of business.

10

The Balanced Growth and Economic Planning Act of 1975 – popularly known after its chief sponsors as the Humphrey-Javits bill – is a decidedly curious product, both as to parentage and other matters. The so-called Coordinator of the Initiative Committee for National Economic Planning – Myron Sharpe, editor of *Challenge* – claims that the bill was originally drafted by members of the Initiative Committee and that the final draft is the 'joint product of the Initiative Committee and the original Senate sponsors.'¹⁰ Senator Javits, however, is on record as wanting to make it clear that the sponsors of the bill 'aren't an instrument for the Committee for National Economic Planning' and that the Committee's definitive statement 'isn't applicable to our bill.'¹¹ Senator Humphrey, for his part, has offered reassurance that no coercion would be involved. 'I can categorically state,' he has said, 'that it is not the intent of the authors of this bill or of the bill itself, and there is not a single word or phrase in this bill which could be used to expand the government's control over the economy.'¹² Indeed the much touted National Planning Bill turns out to be an instrument for an undisclosed purpose. It proposes to create an enormous bureaucratic machinery for planning, but its chief sponsor, while constantly using the magic word planning, admittedly has no idea of what he means by it: Senator Humphrey explained the purpose of the Joint Economic Committee's Hearings on the bill last June by saying: 'This is

¹⁰ *Challenge*, May-June 1975, p. 3.

¹¹ *Daily Report for Executives*, published by The Bureau of National Affairs, Inc., 11 June 1975, p. A 11.

¹² *Notes from the Joint Economic Committee*, U.S. Congress, vol. I, no. 19, p. 19.

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advisory and consultative, and hopefully out of this dialogue and discussion . . . we will come down to a much more clear and precise understanding of exactly what we are talking about and what we mean.'¹³

It is difficult for an outsider to understand how, after introducing so ill-considered and irresponsible a piece of legislation – which promises merely an empty machinery with no stated purpose, which will perhaps give us input-output tables for a few hundred commodities that will be of no conceivable use to anybody except some future economic historian, but which may incidentally be used to enforce the disclosure of various sorts of information that would be exceedingly useful to a future authoritarian government – Senator Humphrey should be able to boast that it is his 'single most important piece of legislation.'¹⁴ Somebody as innocent of American politics as this writer might suspect that the Senator from Minnesota is the unwitting tool of some other, presumably collectivist, wire pullers who want to use the machinery thus created for aims they prefer not to disclose. But when one re-reads the accounts of how the campaign for national planning has evolved in the articles of the editor of the magazine *Challenge*, whose hand one seems to recognize also in several of the other statements supporting the plan, one feels reassured that nothing more sinister than sheer intellectual muddle is at work.

¹³ *Ibid.*, p. 2.

¹⁴ 'Planning Economic Policy,' *Challenge*, March–April 1975, p. 21.

PART FOUR

History of Ideas

CHAPTER FIFTEEN

*Dr Bernard Mandeville**

I

It is to be feared that not only would most of Bernard Mandeville's contemporaries turn in their graves if they could know that he is today presented as a master mind to this august body, but that even now there may have been some raising of eyebrows about the appropriateness of such a choice. The author who achieved such a *succès de scandale* almost 250 years ago is still not quite reputable. Though there can be no doubt that his works¹ had an enormous circulation and that they set many people thinking on important problems, it is less easy to explain what precisely he has contributed to our understanding.

Let me say at once, to dispel a natural apprehension, that I am not going to represent him as a great economist. Although we owe to him both the term 'division of labour' and a clearer view of the nature of this phenomenon, and although no less an authority than Lord Keynes has given him high praise for other parts of his economic work, it will not be on this ground that I shall claim eminence for him. With the exception I have mentioned – which is a big one –

* 'Lecture on a master mind' delivered to the British Academy on 23 March 1966 and reprinted from the *Proceedings of the British Academy*, vol. LII, London, 1967.

¹ Any serious work done today on Mandeville must be deeply indebted to the splendid edition of *The Fable of the Bees* which the late Professor F. B. Kaye published in 1924 through the Oxford University Press. All information about Mandeville and his work used in this lecture is taken from this edition and references to its two volumes will be simply 'i' and 'ii'. Though my opinion of Mandeville's importance is based on earlier acquaintance with most of his works, when I came to write this lecture I had access only to this edition of the *Fable* and two modern reprints of the *Letter to Dion*; all quotations from other works are taken from Kaye's Introduction and Notes to his edition. At least Mandeville's *Origin of Honour* (1732) and his *Free Thoughts on Religion etc.* (1720), and probably also some of his other works, would, however, deserve to be made more accessible; it would be a great boon if the Oxford University Press could be persuaded to expand its magnificent production of the *Fable* into an edition of Mandeville's collected works.

what Mandeville has to say on technical economics seems to me to be rather mediocre, or at least unoriginal – ideas widely current in his time which he uses merely to illustrate conceptions of a much wider bearing.

Even less do I intend to stress Mandeville's contributions to the theory of ethics, in the history of which he has his well-established place. But though a contribution to our understanding of the genesis of moral rules is part of his achievement, it appears to me that the fact that he is regarded as primarily a moralist has been the chief obstacle to an appreciation of his main achievement.

I should be much more inclined to praise him as a really great psychologist,² if this is not too weak a term for a great student of human nature; but even this is not my main aim, though it brings me nearer to my contention. The Dutch doctor, who about 1696, in his late twenties, started to practise in London as a specialist in the diseases of the nerves and the stomach, that is, as a psychiatrist,³ and continued to do so for the following 37 years, clearly acquired in the course of time an insight into the working of the human mind which is very remarkable and sometimes strikingly modern. He clearly prided himself on this understanding of human nature more than on anything else. That we do not know why we do what we do, and that the consequences of our decisions are often very different from what we imagine them to be, are the two foundations of that satire on the conceits of a rationalist age which was his initial aim.

What I do mean to claim for Mandeville is that the speculations to which that *jeu d'esprit* led him mark the definite breakthrough in modern thought of the twin ideas of evolution and of the spontaneous formation of an order, conceptions which had long been in coming, which had often been closely approached, but which just then needed emphatic statement because seventeenth-century rationalism had largely submerged earlier progress in this direction. Though Mandeville may have contributed little to the answers of particular questions

² Professor Kaye has duly drawn attention to the more remarkable of Mandeville's psychological insights, especially to his modern conception of an *ex post* rationalization of actions directed by emotions (see i, p. lxxvii, and cf. pp. lxiii–lxiv), to which I would like to add references to his observations of the manner in which a man born blind would, after gaining sight, learn to judge distances (i, p. 227), and to his interesting conception of the structure and function of the brain (ii, p. 165).

³ Mandeville's work on psychiatry seems to have had a considerable reputation. A *Treatise on Hypochondriac and Hysterical Passions* which he published in 1711 had to be reprinted in the same year and was republished in an enlarged version in 1730 with the word 'Diseases' substituted for 'Passions' in the title.

of social and economic theory, he did, by asking the right questions, show that there was an object for a theory in this field. Perhaps in no case did he precisely show *how* an order formed itself without design, but he made it abundantly clear that it *did*, and thereby raised the questions to which theoretical analysis, first in the social sciences and later in biology, could address itself.⁴

2

Mandeville is perhaps himself a good illustration of one of his main contentions in that he probably never fully understood what was his own discovery. He had begun by laughing about the foibles and pretences of his contemporaries, and that poem in Hudibrastic verse which he published in 1705 as *The Grumbling Hive, or Knaves Turned Honest* was probably little more than an exercise in the new language he had come to love and of which in so short a time he had acquired a remarkable mastery. Yet though this poem is all that most people today know about him, it gives yet little indication of his important ideas. It also seems at first to have attracted no attention among serious people. The idea that

The worst of all the multitude
Did something for the common good

was but the seed from which his later thought sprang. It was not until nine years later, when he republished the original poem with an elaborate and wholly serious prose commentary, that the trend of his thought became more clearly visible; and only a further nine years later, with a second edition of the *Fable of the Bees, or Private Vices Public Benefits*, a book about twenty times as long as the original poem, that his ideas suddenly attracted wide attention and caused a public scandal. Finally, it was really only after yet another six years, when in 1728, at the age of 58, he added a second volume to it, that the bearing of his thought became quite clear. By that time, however, he had become a bogey man, a name with which to frighten the godly and respectable, an author whom one might read in

⁴ Cf. Leslie Stephen, *History of English Thought in the 18th Century*, 2nd ed., London, 1881, I, p. 40: 'Mandeville anticipates, in many respects, the views of modern philosophers. He gives a kind of conjectural history describing the struggle for existence by which man gradually elevated himself above the wild beasts, and formed societies for mutual protection.'

secret to enjoy a paradox, but whom everybody knew to be a moral monster by whose ideas one must not be infected.

Yet almost everybody read him⁵ and few escaped infection. Though the very title of the book, as the modern editor observes,⁶ was apt 'to throw many good people into a kind of philosophical hysterics which left them no wit to grasp what he was driving at', the more the outraged thundered, the more the young read the book. If Dr Hutchinson could give no lecture without attacking *The Fable of the Bees*, we may be sure that his student Adam Smith very soon turned to it. Even half a century later Dr. Samuel Johnson is said to have described it as a book that every young man had on his shelves in the mistaken belief that it was a wicked book.⁷ Yet by then it had done its work and its chief contributions had become the basis of the approach to social philosophy of David Hume and his successors.

3

But does even the modern reader quite see what Mandeville was driving at? And how far did Mandeville himself? His main general thesis emerges only gradually and indirectly, as it were as a by-product of defending his initial paradox that what are private vices are often public benefits. By treating as vicious everything done for selfish purposes, and admitting as virtuous only what was done in order to obey moral commands, he had little difficulty in showing that we owed most benefits of society to what on such a rigoristic standard must be called vicious. This was no new discovery but as old almost as any reflection on these problems. Had not even Thomas Aquinas had to admit that *multae utilitates impedirentur si omnia peccata districte prohiberentur* — that much that is useful would be prevented if all sins were strictly prohibited?⁸ The whole idea was so familiar to the literature of the preceding century, particularly through the work of La Rochefoucauld and Bayle, that it was not difficult for a

5 There is perhaps no other comparable work of which one can be equally confident that all contemporary writers in the field knew it, whether they explicitly refer to it or not. Alfred Espinas ('La Troisième phase de la dissolution du mercantilisme', *Revue internationale de sociologie*, 1902, p. 162) calls it 'un livre dont nous nous sommes assurés que la plupart des hommes du XVIII^e siècle ont pris connaissance'.

6 F. B. Kaye in i, p. xxxix.

7 I borrow this quotation, which I have not been able to trace, from Joan Robinson, *Economic Philosophy*, London, 1962, p. 15.

8 *Summa Theologia*, II. II, q. 78 i.

witty and somewhat cynical mind, steeped from early youth in the ideas of Erasmus and Montaigne, to develop it into a grotesque of society. Yet by making his starting-point the particular moral contrast between the selfishness of the motives and the benefits which the resulting actions conferred on others, Mandeville saddled himself with an incubus of which neither he nor his successors to the present day could ever quite free themselves.

But as in his successive prose works Mandeville defends and develops the initial paradox, it becomes increasingly evident that it was but a special case of a much more general principle for which the particular contrast which had provoked all the moral indignation was almost irrelevant. His main contention became simply that in the complex order of society the results of men's actions were very different from what they had intended, and that the individuals, in pursuing their own ends, whether selfish or altruistic, produced useful results for others which they did not anticipate or perhaps even know; and, finally, that the whole order of society, and even all that we call culture, was the result of individual strivings which had no such end in view, but which were channelled to serve such ends by institutions, practices, and rules which also had never been deliberately invented but had grown up by the survival of what proved successful.

It was in the elaboration of this wider thesis that Mandeville for the first time developed all the classical paradigmata of the spontaneous growth of orderly social structures: of law and morals, of language, the market, and of money, and also of the growth of technological knowledge. To understand the significance of this it is necessary to be aware of the conceptual scheme into which these phenomena had somewhat uneasily been fitted during the preceding 2,000 years.

4

The ancient Greeks, of course, had not been unaware of the problem which the existence of such phenomena raised; but they had tried to cope with it with a dichotomy which by its ambiguity produced endless confusion, yet became so firm a tradition that it acted like a prison from which Mandeville at last showed the way of escape.

The Greek dichotomy which had governed thinking so long, and which still has not lost all its power, is that between what is natural

(*physei*) and that which is artificial or conventional (*thesei* or *nomō*).⁹ It was obvious that the order of nature, the *kosmos*, was given independently of the will and actions of men, but that there existed also other kinds of order (for which they had a distinct word, *taxis*, for which we may envy them) which were the result of the deliberate arrangements of men. But if everything that was clearly independent of men's will and their actions was in this sense obviously 'natural', and everything that was the intended result of men's action 'artificial', this left no distinct place for any order which was the result of human actions but not of human design. That there existed among the phenomena of society such spontaneous orders was often perceived. But as men were not aware of the ambiguity of the established natural/artificial terminology, they endeavoured to express what they perceived in terms of it, and inevitably produced confusion: one would describe a social institution as 'natural' because it had never been deliberately designed, while another would describe the same institution as 'artificial' because it resulted from human actions.

It is remarkable how close, nevertheless, some of the ancient thinkers came to an understanding of the evolutionary processes that produced social institutions. There appears to have existed in all free countries a belief that a special providence watched over their affairs which turned their unsystematic efforts to their benefit. Aristophanes refers to this when he mentions that¹⁰

There is a legend of the olden times
That all our foolish plans and vain conceits
Are overruled to work the public good.

— a sentiment not wholly unfamiliar in this country. And at least the Roman lawyers of classical times were very much aware that the Roman legal order was superior to others because, as Cato is reported to have said, it¹¹

9 Cf. F. Heinemann, *Nomos und Physis*, Basel, 1945, and my essay 'The result of human action but not of human design' in my *Studies in Philosophy, Politics and Economics*, London and Chicago, 1967.

10 *Ecclesiastes*, 473; the translation is that by B. B. Rogers in the Loeb edition, iii, p. 289.

11 M. Tullius Cicero, *De re publica* ii, 1, 2, Loeb ed. by C. W. Keyes, p. 113. Cf. also the Attic orator Antiphon, *On the Choreutes*, par. 2 (in *Minor Attic Orators*, Loeb ed. by K. J. Maidment, p. 247), where he speaks of laws having 'the distinction of being the oldest in this country, . . . and that is the surest token of good laws, as time and experience show mankind what is imperfect'.

was based upon the genius, not of one man, but of many: it was founded, not in one generation, but in a long period of several centuries and many ages of men. For, said he, there never has lived a man possessed of so great a genius that nothing could escape him, nor could the combined powers of all men living at one time possibly make all the provisions for the future without the aid of actual experience and the test of time.

This tradition was handed on, chiefly through the theories of the law of nature; and it is startling how far the older theorists of the law of nature, before they were displaced by the altogether different rationalist natural law school of the seventeenth century, penetrated into the secrets of the spontaneous development of social orders in spite of the handicap of the term 'natural'. Gradually even this unfortunate word became almost a technical term for referring to human institutions which had never been invented or designed by men, but had been shaped by the force of circumstances. Especially in the works of the last of the Schoolmen, the Spanish Jesuits of the sixteenth century, it led to a systematic questioning of how things would have ordered themselves if they had not otherwise been arranged by the deliberate efforts of government; they thus produced what I should call the first modern theories of society if their teaching had not been submerged by the rationalist tide of the following century.¹²

5

Because, however great an advance the work of a Descartes, a Hobbes, and a Leibniz may have meant in other fields, for the understanding of social growth processes it was simply disastrous. That to Descartes Sparta seemed eminent among Greek nations because its laws were the product of design and, 'originated by a single individual, they all tended to a single end'¹³ is characteristic of that constructivistic rationalism which came to rule. It came to be thought that not only all cultural institutions were the product of deliberate construction, but that all that was so designed was necessarily superior to all mere growth. Under this influence the traditional conception of the law of nature was transformed from the

12 On Luis Molina, from this angle the most important of these sixteenth-century Spanish Jesuits, and some of his predecessors see my essay cited in footnote 9, p. 254.

13 R. Descartes, *A Discourse on Method*, part II, Everyman ed. London, 1926, p. 11.

idea of something which had formed itself by gradual adaptation to the 'nature of things', into the idea of something which a natural reason with which man had been originally endowed would enable him to design.

I do not know how much of the older tradition was preserved through this intellectual turmoil, and particularly how much of it may still have reached Mandeville. This would require an intimate knowledge of the seventeenth-century Dutch discussion of legal and social problems which is still largely inaccessible to one who does not read Dutch. There are many other reasons why a thorough study of this period of Dutch thought, which probably had great influence on English intellectual development at the end of that and the beginning of the next century, has long seemed to me one of the great desiderata of intellectual history. But until that gap is filled I can, so far as my particular problem is concerned, only surmise that a closer study would probably show that there are some threads connecting Mandeville with that group of late Schoolmen and particularly its Flemish member, Leonard Lessius of Louvain.¹⁴

Apart from this likely connexion with the older continental theorists of the law of nature, another probable source of inspiration for Mandeville was the English theorists of the common law, particularly Sir Matthew Hale. Their work had in some respects preserved, and in other respects made unnecessary in England, a conception of what the natural law theorists had been aiming at; and in the work of Hale Mandeville could have found much that would have helped him in the speculations about the growth of cultural institutions which increasingly became his central problem.¹⁵

Yet all these were merely survivals of an older tradition which had been swamped by the constructivistic rationalism of the time, the most powerful expositor of which in the social field was the chief target of Hale's argument, Thomas Hobbes. How ready men still were, under the influence of a powerful philosophy flattering to the human mind, to return to the naïve design theories of human institutions, much more in accord with the ingrained propensity of our thinking to interpret everything anthropomorphically, we will

¹⁴ Leonard Lessius, *De justitia et jure*, 1606.

¹⁵ On Sir Matthew Hale see now particularly J. G. A. Pocock, *The Ancient Constitution and the Feudal Law*, Cambridge, 1957, esp. pp. 171 *et seq.* I would like to make amends here for inadvertently not referring to this excellent book in *The Constitution of Liberty*, 1960, for the final revision of which I had much profited from Mr Pocock's work.

understand better when we remember that distinguished renaissance scholars could still as a matter of course search for personal inventors of all the institutions of culture.¹⁶ The renewed efforts to trace the political order to some deliberate act, an original agreement or contract, was much more congenial to this view than the more sophisticated accounts of their evolution which had been attempted earlier.

6

To his contemporaries 'Mandeville's reduction of all action to open or disguised selfishness'¹⁷ may indeed have seemed little more than another version of Hobbes, and to have disguised the fact that it led to wholly different conclusions. His initial stress on selfishness still carried a suggestion that man's actions were guided by wholly rational considerations, while the tenor of his argument becomes increasingly that it is not insight but restraints imposed upon men by the institutions and traditions of society which make their actions appear rational. While he still seems most concerned to show that it is merely pride (or 'self-liking')¹⁸ which determines men's actions, he becomes in fact much more interested in the origin of the rules of conduct which pride makes men obey but whose origin and rationale they do not understand. After he has convinced himself that the reasons for which men observe rules are very different from the reasons which made these rules prevail, he gets increasingly intrigued about the origin of these rules whose significance for the orderly process of society is quite unconnected with the motives which make individual men obey them.

This begins to show itself already in the prose commentary on the poem and the other pieces which make up part I of the *Fable*, but blossoms forth in full only in part II. In part I Mandeville draws his illustrations largely from economic affairs because, as he thinks, 'the

(6) Cf. Pocock, *op. cit.*, p. 19: 'This was the period in which Polydore Vergil wrote his *De inventoribus rerum* on the assumption that every invention could be traced to an individual discoverer; and in the field of legal history Macchiavelli would write with what seems singular naïveté of the man "chi ordinó" so complex a creation of history as the monarchy of France' — with footnote references to Denys Hay, *Polydore Vergil*, Oxford, 1953, chapter III, Niccoló Macchiavelli, *Discorsi* I, xvi, and Pierre Mesnard, *L'Essor de la philosophie politique au XVI^e siècle*, Paris, 1951, p. 83.

(7) F. B. Kaye, i, p. lxiii.

(8) See Chiaki Nishiyama, *The Theory of Self-Love: an Essay in the Methodology of the Social Sciences, and especially of Economics, with special Reference to Bernard Mandeville*, University of Chicago Ph.D. thesis (unreproduced), 1960.

sociableness of man arises from those two things, viz., the multiplicity of his desires, and the continuous opposition he meets with in his endeavours to satisfy them'.¹⁹ But this leads him merely to those mercantilist considerations about the beneficial effects of luxury which caused the enthusiasm of Lord Keynes. We find here also that magnificent description of all the activities spread over the whole earth that go to the making of a piece of crimson cloth²⁰ which so clearly inspired Adam Smith and provided the basis for the explicit introduction of the division of labour in part II.²¹ Already underlying this discussion there is clearly an awareness of the spontaneous order which the market produces.

7

I would not wish to dwell on this at any length, however, if it were not for the fact that Mandeville's long recognized position as an anticipator of Adam Smith's argument for economic liberty has recently been challenged by Professor Jacob Viner,²² than whom there is no greater authority on such matters. With all due respect, however, it seems to me that Professor Viner has been misled by a phrase which Mandeville repeatedly uses, namely his allusions to the 'dextrous management by which the skilful politician might turn private vices into public benefits'.²³ Professor Viner interprets this to mean that Mandeville favours what we now call government interference or intervention, that is, a specific direction of men's economic activities by government.

This, however, is certainly not what Mandeville meant. His aim comes out fairly unmistakably already in the little noticed subtitle to the second 1714 printing of the *Fable*, which describes it as containing 'Several Discourses, to demonstrate, that Human Frailties, . . . may

¹⁹ i, p. 344.

²⁰ i, p. 356. Already Dugald Stewart in his *Lectures on Political Economy* (*Collected Works*, vii, p. 323) suggests that this passage in Mandeville 'clearly suggested to Adam Smith one of the finest passages of *The Wealth of Nations*'.

²¹ ii, p. 284.

²² Introduction to Bernard Mandeville, *A Letter to Dion* (1732), edited for The Augustan Reprint Society, Los Angeles, University of California, 1953, and reprinted in Professor Viner's *The Long View and the Short*, Chicago, 1958, pp. 332-42. For the predominant and, I believe, truer opinion, cf. Albert Schatz, *L'Individualisme économique et social*, Paris, 1907, p. 62, who describes the *Fable* as 'l'ouvrage capital où se trouvent tous les germes essentiels de la philosophie économique et sociale de l'individualisme'.

²³ i, pp. 51, 369, ii, p. 319; also *Letter to Dion*, p. 36.

be turned to the Advantage of the Civil Society, and made to supply the Place of *Moral Virtues*'.²⁴ What I believe he wants to say by this is precisely what Josiah Tucker expressed more clearly 40 years later when he wrote that 'that *universal* mover in human nature, SELF-LOVE, may receive such a direction in this case (as in all others) as to promote the public interest by those efforts it shall make towards pursuing its own'.²⁵ The means through which in the opinion of Mandeville and Tucker individual efforts are given such a direction, however, are by no means any particular commands of government but institutions and particularly general rules of just conduct. It seems to me that Mr Nathan Rosenberg is wholly right when, in his reply to Professor Viner, he argues that in Mandeville's view, just as in Adam Smith's, the proper function of government is 'to establish the rules of the game by the creation of a framework of wise laws', and that Mandeville is searching for a system where 'arbitrary exertions of government power would be minimized'.²⁶ Clearly an author who could argue, as Mandeville had already in part I of the *Fable*, that 'this proportion as to numbers in every trade finds itself, and is never better kept than when nobody meddles or interferes with it',²⁷ and who in conclusion of part II speaks about 'how the short-sighted wisdom, of perhaps well-meaning people, may rob us of a felicity, that would flow spontaneously from the nature of every large society, if none were to divert or interrupt this stream',²⁸ was quite as much (or as little)²⁹ an advocate of *laissez faire* as Adam Smith.

I do not attach much importance to this question and would have

²⁴ Cf. the title page reproduced in ii, p. 393. It is not described as a second edition, which term was reserved to the edition of 1723.

²⁵ Josiah Tucker, *The Elements of Commerce and Theory of Taxes* (1755), in R. L. Schuyler, *Josiah Tucker, a Selection from his Economic and Political Writings*, New York, 1931, p. 92.

²⁶ Nathan Rosenberg, 'Mandeville and laissez faire', *Journal of the History of Ideas*, xxiv, 1963, pp. 190, 193. Cf. ii, p. 335, where Mandeville argues that, though it would be preferable to have all power in the hands of the good, 'the best of all then not being to be had, let us look out for the next best, and we shall find, that of all possible means to secure and perpetuate to nations their establishment, and whatever they value, there is no better method than with wise laws to guard and entrench their constitution and to contrive such forms of administration, that the common-weal can receive no great detriment from the want of knowledge or probity of ministers, if any of them should prove less able and honest than we would wish them.'

²⁷ i, pp. 299-300.

²⁸ ii, p. 353.

²⁹ Cf. J. Viner, 'Adam Smith and laissez faire', *Journal of Political Economy*, xxxv, 1927 and reprinted in *The Long View and the Short*.

relegated it to a footnote if in connexion with it the baneful effect of the old dichotomy of the 'natural' and the 'artificial' had not once again made an appearance. It was Élie Halévy who had first suggested that Mandeville and Adam Smith had based their argument on a 'natural identity of interests', while Helvetius (who undoubtedly was greatly indebted to Mandeville and Hume), and, following Helvetius, Jeremy Bentham, were thinking of an 'artificial identification of interests';³⁰ and Professor Viner suggests that Helvetius had derived this conception of an artificial identification of interests from Mandeville.³¹ I am afraid this seems to me the kind of muddle to which the natural/artificial dichotomy inevitably leads. What Mandeville was concerned with was that institutions which man had not deliberately made – though it is the task of the legislator to improve them – bring it about that the divergent interests of the individuals are reconciled. The identity of interests was thus neither 'natural' in the sense that it was independent of institutions which had been formed by men's actions, nor 'artificial' in the sense that it was brought about by deliberate arrangement, but the result of spontaneously grown institutions which had developed because they made those societies prosper which tumbled upon them.

8

It is not surprising that from this angle Mandeville's interest became increasingly directed to the question of how those institutions grew up which bring it about that men's divergent interests are reconciled. Indeed this theory of the growth of law, not through the design of some wise legislator but through a long process of trial and error, is probably the most remarkable of those sketches of the evolution of institutions which make his investigation into the origin of society which constitutes part II of the *Fable* so remarkable a work. His central thesis becomes³²

that we often ascribe to the excellency of man's genius, and the depth of his penetration, what is in reality owing to the length of time, and the experience of many generations, all of them very little differing from one another in natural parts and sagacity.

30 Élie Halévy, *The Growth of Philosophical Radicalism*, London, 1928, pp. 15–17.

31 *The Long View and the Short*, p. 342.

32 ii, p. 142.

He develops it with reference to laws by saying that³³

there are very few, that are the work of one man, or of one generation; the greatest part of them are the product, the joint labour of several ages. . . . The wisdom I speak of, is not the offspring of a fine understanding, or intense thinking, but of sound and deliberate judgment, acquired from a long experience in business, and a multiplicity of observations. By this sort of wisdom, and length of time, it may be brought about, that there may be no greater difficulty in governing a large city, than (pardon the lowness of the simile) there is in weaving of stockings.

When by this process the laws 'are brought to as much perfection, as art and human wisdom can carry them, the whole machinery can be made to play of itself, with as little skill, as is required to wind up a clock',³⁴

(Of course Mandeville is not fully aware of how long would be the time required for the development of the various institutions – or of the length of time actually at his disposal for accounting for it. He is often tempted to telescope this process of adaptation to circumstances,³⁵ and does not pull himself up to say explicitly, as Hume later did in a similar context, that 'I here only suppose those reflections to be formed at once, which in fact arise insensibly and by degrees'.³⁶ He still vacillates between the then predominant pragmatic-rationalist and his new genetic or evolutionary view.³⁷ But what makes the latter so much more significant in his work than it was in the application to particular topics by Matthew Hale or John Law,³⁸ who probably did it better in their particular fields, is that he applies it to society at large and extends it to new topics. He still struggles to free himself from the constructivistic preconceptions.

33 ii, p. 322.

34 ii, p. 323.

35 N. Rosenberg, *loc. cit.*, p. 194.

36 David Hume, *A Treatise on Human Nature*, ed. T. H. Green and T. H. Grose, ii, p. 274.

37 Cf. Paul Sakmann, *Bernard de Mandeville und die Bienenfabel-Controverse*, Freiburg i.B., 1897, p. 141. Although partly superseded by Kaye's edition, this is still the most comprehensive study of Mandeville.

38 In his *Money and Trade Considered with a Proposal for Supplying the Nation with Money*, Edinburgh, 1705, which thus appeared in the same year as Mandeville's original poem, John Law gave what Carl Menger rightly described as the first adequate account of the development of money. There is no ground for believing that Mandeville knew it, but the date is interesting as showing that the evolutionary idea was somehow 'in the air'.

The burden of his argument is throughout that most of the institutions of society are not the result of design, but how 'a most beautiful superstructure may be raised upon a rotten and despicable foundation',³⁹ namely men's pursuit of their selfish interests, and how, as 'the order, oeconomy, and the very existence of civil society . . . is entirely built upon the variety of our wants . . . so the whole superstructure is made up of the reciprocal services which men do to each other',⁴⁰

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It is never wise to overload a lecture with quotations which, taken out of their context, rarely convey to the listener what they suggest to the reader of the consecutive exposition. So I will merely briefly mention the further chief applications to which Mandeville puts these ideas. Starting from the observation of how the skills of sport involve movements the purpose of which the acting person does not know,⁴¹ and how similarly the skills of the arts and trades have been raised to 'prodigious height . . . by the uninterrupted labour and joint experience of many generations, though none but men of ordinary capacity should ever be employed in them',⁴² he maintains that manners in speaking, writing, and ordering actions are generally followed by what we regard as 'rational creatures . . . without thinking and knowing what they are about'.⁴³ The most remarkable application of this, in which Mandeville appears to have been wholly a pioneer, is to the evolution of language which, he maintains, has also come into the world 'by slow degrees, as all other arts and sciences'.⁴⁴ When we remember that not long before even John Locke had regarded words as arbitrarily 'invented',⁴⁵ it would seem that Mandeville is the chief source of that rich speculation on the growth of language which we find in the second half of the eighteenth century.

All this is part of an increasing preoccupation with the process which we would now call cultural transmission, especially through education. He explicitly distinguishes what is 'adventitious and acquired by culture'⁴⁶ from what is innate, and makes his spokesman in the dialogue of part II stress that 'what you call natural, is evidently artificial and acquired by education'.⁴⁷ All this leads him

39 ii, p. 64.

40 ii, p. 349.

41 ii, pp. 140-1.

42 ii, p. 141.

43 *Ibid.*

44 ii, p. 287.

45 John Locke, *Essay Concerning Human Understanding*, III. ii. 1.

46 ii, p. 89.

47 ii, p. 270.

in the end to argue that 'it was with our thought as it is with speech'⁴⁸ and that⁴⁹

human wisdom is the child of time. It was not the contrivance of one man, nor could it have been the business of a few years, to establish a notion, by which a rational creature is kept in awe for fear of itself, and an idol is set up, that shall be its own worshipper.

Here the anti-rationalism, to use for once the misleading term which has been widely used for Mandeville and Hume, and which we had now better drop in favour of Sir Karl Popper's 'critical rationalism', comes out most clearly. With it Mandeville seems to me to have provided the foundations on which David Hume was able to build. Already in part II of the *Fable* we meet more and more frequently terms which are familiar to us through Hume, as when Mandeville speaks of 'the narrow bounds of human knowledge'⁵⁰ and says that

we are convinced, that human understanding is limited; and by the help of very little reflection, we may be as certain, that the narrowness of its bounds, its being so limited, is the very thing, the sole cause, which palpably hinders us from driving into our origins by dint of penetration.⁵¹

And in *The Origin of Honour*, which came out when Hume was 21 and according to his own testimony was 'planning' the *Treatise on Human Nature*, but had not yet started 'composing' it,⁵² we find the wholly Humean passage that⁵³

all human creatures are swayed and wholly governed by their passions, whatever fine notions we may flatter ourselves with; even those who act suitably to their knowledge, and strictly follow the dictates of their reason, are not less compelled to do so by some passion or other, that sets them to work, than others, who bid defiance and act contrary to both, and whom we call slaves to their passions.

⁴⁸ ii, p. 269.

⁴⁹ *The Origin of Honour* (1732), quoted, i, p. 47 n.

⁵⁰ ii, p. 104. Cf. David Hume, 'Enquiry', in *Essays*, ed. T. H. Green and T. H. Grose, ii, p. 6: 'Man is a reasonable being; and as such, receives from science his proper food and nourishment: But so narrow are the bounds of human understanding, that little satisfaction can be hoped for in this particular, either from the extent or security of his acquisitions.'

⁵¹ ii, p. 315.

⁵² Cf. E. C. Mossner, *The Life of David Hume*, London, 1954, p. 74.

⁵³ *The Origin of Honour*, p. 31, quoted, i, p. lxxix.

I do not intend to pitch my claim on behalf of Mandeville higher than to say that he made Hume possible.⁵⁴ It is indeed my estimate of Hume as perhaps the greatest of all modern students of mind and society which makes Mandeville appear to me so important. It is only in Hume's work that the significance of Mandeville's efforts becomes wholly clear, and it was through Hume that he exercised his most lasting influence. Yet to have given Hume⁵⁵ some of his leading conceptions seems to me sufficient title for Mandeville to qualify as a master mind.

How much Mandeville's contribution meant we recognize when we look at the further development of those conceptions which Hume was the first and greatest to take up and elaborate. This development includes, of course, the great Scottish moral philosophers of the second half of the century, above all Adam Smith and Adam Ferguson, the latter of whom, with his phrase about the 'results of human action but not of human design',⁵⁶ has provided not only the best brief statement of Mandeville's central problem but also the best definition of the task of all social theory. I will not claim in favour of Mandeville that his work also led via Helvetius to Bentham's particularistic utilitarianism which, though the claim is true enough, meant a relapse into that constructivistic rationalism which it was Mandeville's main achievement to have overcome. But the tradition which Mandeville started includes also Edmund Burke, and, largely through Burke, all those 'historical schools' which, chiefly on the

54 Cf. Simon N. Patten, *The Development of English Thought*, New York, 1910, pp. 212-13: 'Mandeville's immediate successor was Hume. . . . If my interpretation is correct, the starting-point of Hume's development lay in the writings of Mandeville.' Also O. Bobertag's observation in his German translation of *Mandeville's Bienenfabel*, Munich, 1914, p. xxv: 'Im 18. Jahrhundert gibt es nur einen Mann, der etwas gleich Grosses - und Grösseres - geleistet hat, David Hume.'

55 The same may also be true concerning Montesquieu. See on this Joseph Dedieu, *Montesquieu et la tradition politique anglaise*, Paris, 1909, pp. 260-1, and 307 n.

56 Adam Ferguson, *An Essay on the History of Civil Society*, Edinburgh, 1767, p. 187: 'Every step and every movement of the multitude, even in what are termed enlightened ages, are made with equal blindness to the future; and nations stumble upon establishments, which are indeed the result of human action, but not the execution of any human design. If Cromwell said, That a man never mounts higher than when he knows not whither he is going; it may with more reason be affirmed of communities, that they admit of the greatest revolutions where no change is intended, and that the most refined politicians do not always know whither they are leading the state by their projects.'

Continent, and through men like Herder⁵⁷ and Savigny,⁵⁸ made the idea of evolution a commonplace in the social sciences of the nineteenth century long before Darwin. And it was in this atmosphere of evolutionary thought in the study of society, where 'Darwinians before Darwin' had long thought in terms of the prevailing of more effective habits and practices, that Charles Darwin at last applied the idea systematically to biological organisms.⁵⁹ I do not, of course, mean to suggest that Mandeville had any direct influence on Darwin (though David Hume probably had). But it seems to me that in many respects Darwin is the culmination of a development which Mandeville more than any other single man had started.

Yet Mandeville and Darwin still have one thing in common: the scandal they caused had ultimately the same source, and Darwin in this respect finished what Mandeville had begun. It is difficult to remember now, perhaps most difficult for those who hold religious views in their now prevailing form, how closely religion was not long ago still associated with the 'argument from design'. The discovery of an astounding order which no man had designed was for most men the chief evidence for the existence of a personal creator. In the moral and political sphere Mandeville and Hume did show that the sense of justice and probity on which the order in this sphere rested, was not originally implanted in man's mind but had, like that mind itself, grown in a process of gradual evolution which at least in principle we might learn to understand. The revulsion against this suggestion was quite as great as that caused more than a century later when it was shown that the marvels of the organism could no longer

⁵⁷ It may deserve notice that J. G. Herder seems to have been the earliest instance where the influence of Mandeville joined with that of the somewhat similar ideas of G. Vico.

⁵⁸ It would seem as if it had been largely by way of Savigny that those ideas of Mandeville and Hume eventually reached Carl Menger and thus returned to economic theory. It was in the sociological parts of his *Untersuchungen über die Methode* (1883, translated as *Problems of Economics and Sociology*, ed. Louis Schneider, Urbana, Ill., 1963) that Carl Menger not only restated the general theory of the formation of law, morals, money, and the market in a manner which, I believe, had never again been attempted since Hume, but that he also expressed the fundamental insight that (p. 94 of the translation): 'This genetic insight is inseparable from the idea of theoretical science.' Perhaps it also deserves notice here, since this seems not to be generally known, that, through his pupil Richard Thurnwald, Menger exercised some influence on the rise of modern cultural anthropology, the discipline which more than any other has in our day concentrated on what were the central problems of the Mandeville-Hume-Smith-Ferguson tradition. Cf. also the long extracts from Mandeville now given in J. S. Slotkin (ed.), *Readings in Early Anthropology*, London, 1965.

⁵⁹ On the influence on Charles Darwin of conceptions derived from social theory see E. Rull, *Geschichte der biologischen Theorie*, ii, Leipzig, 1909, especially p. 121.

be adduced as proof of special design. Perhaps I should have said that the process began with Kepler and Newton. But if it began and ended with a growing insight into what determined the kosmos of nature, it seems that the shock caused by the discovery that the moral and political kosmos was also the result of a process of evolution and not of design, contributed no less to produce what we call the modern mind.

CHAPTER SIXTEEN

*Adam Smith's Message in Today's Language**

During the 40-odd years over which I have been lecturing on the history of economics, I have always found the lectures on Adam Smith particularly difficult to give.

By the time one comes to him one has shown that most of the decisive insights into the technical issues that today constitute the backbone of economic theory, the problems of value and distribution and of money, had been gained a generation before him, and that he did not even always fully appreciate the importance of this earlier work. And yet, like most other economists, I strongly felt and wanted to convey that he was much the greatest of them all, not only in influence but also in penetration and clear recognition of the central problem of the science.

In some respects his immediate successors understood this more clearly than we do. As the editor of the *Edinburgh Review*, Francis Jeffrey, wrote in 1803 of the great Scottish moral philosophers, Lord Kames, Adam Smith and James Millar (and he ought to have added Adam Ferguson), it was their great object

to trace back the history of society to the most simple and universal elements – to resolve almost all that had been ascribed to positive institutions into the spontaneous and irresistible development of certain obvious principles – and to show with how little contrivance or political wisdom the most complicated and apparently artificial schemes of policy might have been created.

In applying this general approach to the market, Smith was able to carry the basic idea much further than any of his contemporaries.

* From the *Daily Telegraph*, London, 9 March 1976.

The great achievement of his famous discussion about the division of labour was the recognition that men who were governed in their efforts, not by the known concrete needs and capacities of their intimate fellows, but by the abstract signals of the prices at which things were demanded and offered on the market, were thereby enabled to serve the enormous field of the 'great society' that 'no human wisdom and knowledge could ever be sufficient' to survey.

In spite of the 'narrowness of his comprehension' individual man, when allowed to use his own knowledge for his own purposes (Smith wrote 'pursue his own interests in his own way upon the liberal plan of equality, liberty and justice'), was placed in a position to serve men and their needs, and use men and their skills, who were wholly outside the range of his perception. The great society indeed became possible by the individual directing his own efforts not towards visible wants but towards what the signals of the market represented as the likely gain of receipts over outlay. The practices by which the great commercial centres had become rich were shown to enable the individual to do much more good and to serve much greater needs than if he let himself be guided by the observed needs and capacities of his neighbours.

It is an error that Adam Smith preached egotism: his central thesis said nothing about how the individual should use his increased product; and his sympathies were all with the benevolent use of the increased income. He was concerned with how to make it possible for people to make their contribution to the social product as large as possible; and this he thought required that they were paid what their services were worth to those to whom they rendered them. But his teaching nevertheless offended a deeply ingrained instinct that man had inherited from the earlier face-to-face society, the horde or the tribe, in which through hundreds of thousands of years the emotions were formed which still govern him after he has entered the open society. These inherited instincts demand that man should aim at doing a visible good to his known fellows (the 'neighbour' of the Bible).

These are the feelings that still, under the name of 'social justice', govern all socialist demands and easily engage the sympathies of all good men, but which are irreconcilable with the open society to which today all the inhabitants of the West owe the general level of their wealth.

The demand for 'social justice', for an assignment of the shares in

the material wealth to the different people and groups according to their needs or merits, on which the whole of socialism is based, is thus an atavism, a demand which cannot be reconciled with the open society in which the individual may use his own knowledge for his own purposes.

The recognition that a man's efforts will benefit more people, and on the whole satisfy greater needs, when he lets himself be guided by the abstract signals of prices rather than by perceived needs, and that by this method we can best overcome our constitutional ignorance of most of the particular facts, and can make the fullest use of the knowledge of concrete circumstances widely dispersed among millions of individuals, is the great achievement of Adam Smith.

Smith could, of course, not direct his arguments against what we now call socialism, since this was not known in his time. But he knew well the underlying general attitude which I like to call 'constructivism' and which will approve of no human institution unless it was deliberately designed and directed by men for the aims which their inherited feelings dictate. He called them 'men of system'; and this is what he had to say about them in his first great work:

The man of system . . . seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board. He does not consider that the pieces upon the chess-board have no other principle of motion beside that which the hand impresses upon them; but that, in the great chess-board of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might choose to impress upon it. If those two principles coincide and act in the same direction, the game of human society will go on easily and harmoniously, and is very likely to be happy and successful. If they are opposite or different, the game will go on miserably, and human society must be at all times in the highest degree of disorder.

The last sentence is not a bad description of our present society. And if we persevere in the atavism and, following the inherited instincts of the tribe, insist on imposing upon the great society principles which presuppose the knowledge of all the particular circumstances which in that society the chief could know, back to the tribal society we shall go.

CHAPTER SEVENTEEN

*The Place of Menger's Grundsätze in the History of Economic Thought**

When the *Grundsätze* appeared in 1871, it was only 95 years since the *Wealth of Nations*, only 54 since Ricardo's *Principles*, and a mere 23 since the great restatement of classical economics by John Stuart Mill. It is well to begin by recalling these intervals, lest we should look for a mark on contemporary economics (100 years later) which should be greater than it in fact appears to be. There has of course occurred, in the latter part of this 100 years, another revolution – which has shifted interest to aspects of economic analysis that were little cultivated in the earlier part of the century, the time when the impact of Menger's work was chiefly felt. Yet in a longer perspective the 'micro-economic' phase, which owed much of its character to Menger, had considerable duration. It lasted for more than a quarter of the nearly two centuries that have elapsed since Adam Smith.

It is also important, for proper appreciation of Menger, that we do not underestimate what had been achieved before. It is misleading to think of the preceding period, 1820–70, as simply dominated by Ricardian orthodoxy. At least in the first generation after Ricardo there had been plenty of new ideas. Both within the body of classical economics as finally expounded by John Stuart Mill and even more outside it there had been accumulated an array of tools of analysis from which later generations were able to build an elaborate and coherent structure of theory after the concept of marginal utility provided the basis of the unification. If there ever was a time in which a quasi-Ricardian orthodoxy was dominant, it was after John Stuart Mill had so persuasively restated it. Yet even his *Principles* contain very important developments which go far beyond Ricardo. And

* Reprinted from J. R. Hicks and W. Weber (eds), *Carl Menger and the Austrian School of Economics*, Oxford, 1973.

even before the publication of that work there had been most important contributions which Mill did not integrate in his synthesis. There had been not only Cournot, Thünen, and Longfield with their crucial work on the theory of price and on marginal productivity, but also a number of other important contributions to the analysis of demand and supply – not to speak of those anticipations of the marginal-utility analysis that were overlooked at the time but later found to be contained in the works of Lloyd, Dupuit, and Gossen. Most of the material was thus available from which it was almost inevitable that somebody should sooner or later undertake a reconstruction of the whole body of economic theory – as Alfred Marshall ultimately did, and probably would have done in a not very different fashion if the marginal revolution had not taken place before.

That the reaction against classical economics did take the particular form it did – that at almost the same time William Stanley Jevons in England, Carl Menger at Vienna, and Léon Walras at Lausanne made the subjective value of goods to individuals the starting-point for their reconstruction – was probably as much as anything due to the fact that in his theory of value Mill had explicitly returned to Ricardo. In the work of Menger and Walras their theories of value do not indeed so directly spring from a reaction against Mill as is true in the case of Jevons. But what stood out so clearly in Mill, namely that he lacked a general theory of value which explained the determination of all prices by a uniform principle, was scarcely less true of the systems and textbooks of economic theory that were generally used on the Continent. Though many of them contained much shrewd analysis of the factors that contributed to the determination of price in particular situations, they all lacked a general theory under which the particular instances could be subsumed. It is true that even the demand and supply curves apparatus was beginning to be used; it perhaps deserves mention that the edition of the German textbook by Karl Heinrich Rau, which Menger carefully studied before he wrote the *Grundsätze*, contains at the end a diagram using such curves. But in general it remains true that the prevailing theories offered altogether different explanations of the determination of prices of augmentable and of non-augmentable goods; and in the case of the former they traced the prices of the products to their cost of production, that is to the prices of the factors used, which in turn were not adequately explained. This kind of theory could hardly satisfy. It is indeed quite difficult to understand how a scholar of the

penetration and transparent intellectual honesty of John Stuart Mill could have singled out what was so soon felt to be the weakest part of his system for the confident assertion that 'there is nothing in the laws of value which remains for the present or any future writer to clear up; the theory of the subject is complete'.¹ That this foundation of the whole edifice of economic theory was inadequate was only too painfully evident to a number of critical thinkers of the time.

Yet it would probably not be just to suggest that the widespread disillusionment about the prevailing body of economic theory, which becomes noticeable soon after the great success of Mill's work, was due entirely or even chiefly to this fault. There were other circumstances that shook the confidence in the economic theory that had so triumphantly conquered public opinion during the preceding generation, such as in the case of Mill his abandonment of the wage-fund theory which had played so important a part in his work and for which he had nothing to substitute. There was further the growing influence of the historical school which tended to question the value of all attempts at a general theory of economic phenomena. And the fact that the conclusions of the prevailing economic theory seemed to stand in the way of various new social aspirations produced a hostile attitude towards it which made the most of its undeniable defects.

But, though the contrary has been asserted, I can find no indication that Jevons, Menger, or Walras, in their efforts to rebuild economic theory, were moved by any desire to revindicate the practical conclusions that had been drawn from classical economics. Such indications as we have of their sympathies are on the side of the current movements for social reform. Their scientific work seems to me to have sprung entirely from their awareness of the inadequateness of the prevailing body of theory in explaining how the market order in fact operated. And the source of inspiration in all three cases seems to have been an intellectual tradition which, at least since Fernando Galiani in the eighteenth century, had run side by side with the labour and cost theories deriving from John Locke and Adam Smith. I cannot here spare the time to trace the now fairly well-explored history of this utility tradition in the theory of value. But while in the case of Jevons and Walras their indebtedness to particular earlier authors is fairly clear, it is less easy in the case of Menger to discover to whom he owed the decisive suggestions. It is true that on the whole the German literature, on which he mainly

¹ J. S. Mill, *Principles of Political Economy* (1848 and later), book III, chapter I, § 1.

drew in his early studies, had devoted more attention to the relation between value and utility than the English writers had done. Yet none of the works that he knew came very close to the solution of the problem at which he ultimately arrived; for it seems certain that he did not know, before he wrote the *Grundsätze*, the one German work in which he had been largely anticipated, that of Herman Heinrich Gossen. Nor does it seem likely that the local environment in which he worked can have provided much stimulus to the pursuit of the problems with which he was concerned. He seems to have indeed worked in complete isolation, and in old age still regretfully told a young economist that in his youth he had had none of the opportunities for discussion that later generations enjoyed.² Indeed, Vienna could not have seemed at the time a likely place from which a major contribution to economic theory could be expected.

We know, however, very little about Menger's youth and education and I cannot help regretting that so little work has been done by Austrians to throw more light on it.³ What little work has been done in modern times about the origin and history of his ideas has been done elsewhere and can scarcely replace what might be done from Austrian sources.⁴ Even if the material for a proper biography of Menger does not exist, it should at least be possible to obtain a clearer picture than we have of the general intellectual background of his studies and early work. I must here confine myself to stating a few relevant facts, most of which I owe to the publications of Professor Emil Kauder.⁵

² L. von Mises, *The Historical Setting of the Austrian School of Economics*, New Rochelle, N.Y., 1969, p. 10.

³ My own sketch of Menger's life which I wrote in 1934 in London as an Introduction to his *Collected Works* can in no way fill this gap. It could in the circumstances be no more than a compilation from the available printed sources, supplemented only by information supplied by Menger's son and some of his pupils.

⁴ See particularly G. J. Stigler, 'The development of utility theory', *Journal of Political Economics*, 58, 1950, and reprinted in the author's *Essays in the History of Economics*, Chicago, 1965; R. S. Howey, *The Rise of the Marginal Utility School 1870-1889*, Lawrence, Kansas, 1960; R. Hansen, 'Der Methodenstreit in den Socialwissenschaften zwischen Gustav Schmoller und Karl Menger: seine wissenschaftshistorische und wissenschaftstheoretische Bedeutung' in A. Diemer (ed.), *Beiträge zur Entwicklung der Wissenschaftstheorie im 19. Jahrhundert*, Meisenheim am Glan, 1968; and the writings of Emil Kauder listed in note 5.

⁵ Emil Kauder, 'The retarded acceptance of marginal utility theory', *Quarterly Journal of Economics*, 67, 1953; 'Intellectual and political roots of the older Austrian school', *Zeitschrift für Nationalökonomie*, 17, 1958; 'Menger and his library', *Economic Review*, Hitotsubashi University, 10, 1959; 'Aus Mengers nachgelassenen Papieren', *Weltwirtschaftliches Archiv* 89, 1962; and *A History of Marginal Utility Theory*, Princeton, 1965.

There had not been in Austria that great vogue of Smithian economics or that reception of English and French ideas in the field of economics that had swept most parts of Germany during the first half of the last century. Until as late as 1846 economics was in fact taught at the Austrian universities on the basis of the eighteenth-century cameralist textbook of Joseph von Sonnenfels. In that year it was at last replaced by the work that Menger apparently used as a student, J. Kudler's *Grundlehren der Volkswirtschaft*. In that work he would have found some discussion of the relation of value to utility and especially of the significance of the different urgency of the needs that the various commodities served. We have, however, no evidence that until some time after he left the university Menger began seriously to concern himself with these problems. He is reported to have himself said that his interest in them was aroused through having to write, as a young civil servant, reports on market conditions and through having become aware in doing this how little established theory did help to account for price changes. The earliest preserved notes in his copy of the textbook by Rau mentioned above suggest that by 1867, that is at the age of 27, he had started seriously to think about those questions and had already come fairly close to his ultimate solution. These extensive marginal annotations in his copy of the Rau volume, which with Menger's economic library is preserved at the Hitotsubashi University of Toyko, have been edited by the Japanese, with the assistance of Professor Kauder, under the title of a 'First Draft of the *Grundsätze*',⁶ but they can hardly be called that. Though they show that he had already arrived at his conception of the value of a good to an individual as depending on the particular want, for the satisfaction of which it is a condition; though they manifest the characteristic impatience with vague hints in this direction that is bound to be felt by one who had already arrived at a clearer view; they still (perhaps inevitably from their nature) fall far short of the methodical approach which distinguishes the *Grundsätze*. I conclude that the book was really worked out between 1867 and 1871, largely with reference to the extensive German discussions to which the footnotes refer.

What makes the exposition of the *Grundsätze* so effective is its

⁶ *Carl Mengers erster Entwurf zu seinem Hauptwerk 'Grundsätze' geschrieben als Anmerkungen zu den 'Grundsätzen der Volkswirtschaftslehre' von Karl Heinrich Rau*, Library of Hitotsubashi University, Tokyo, 1963 (mimeographed), and cf. also *Carl Mengers Zusätze zu 'Grundsätze der Volkswirtschaftslehre'*, published in 1961 by the same institution and in the same form.

persistent slow approach to its main object. We find Menger elaborating the properties, first of a useful object, then of a good, then of a scarce or economic good, from which he proceeds to the factors determining its value; then he passes to define a marketable commodity (with various degrees of marketability) which takes him ultimately to money. And at every stage Menger stresses (in a manner that to the modern reader, to whom these things have become commonplace, may well seem tedious) how these properties depend (1) on the wants of the person who is acting, and (2) upon his knowledge of the facts and circumstances that make the satisfaction of his need depend on that particular object. He continually emphasizes that these attributes do not inhere in things (or services) as such; that they are not properties that can be discovered by studying the things in isolation. They are entirely a matter of relations between things and the persons who take action about them. It is the latter who, from their knowledge of their subjective wants, and of the objective conditions for satisfying those wants, are led to attribute to physical things a particular degree of importance.

The most obvious result of this analysis is of course the solution of the old paradox of value, through the distinction between the total and the marginal utility of a good. Menger does not yet use the term 'marginal utility' which (or more precisely its German equivalent, *Grenznutzen*) was introduced only 13 years later by Friedrich von Wieser. But he makes the distinction fully clear by showing for the simplest possible case of a given quantity of a particular kind of consumers' good that can be used to satisfy different wants (each of which declines in urgency as it is more fully satisfied), that the importance of any one unit of it will depend on that of the last need for the satisfaction of which the available total quantity is still sufficient. But if he had stopped at this point he would neither have gone beyond what several predecessors, unknown to him, had already seen, nor would he in all probability have made a greater impact than they had made. What later were called (also by Wieser) the two laws of Gossen, namely the decreasing utility of the successive satisfaction of any want, and the equalization of the utilities to which the satisfaction of the different wants that a given good served would be carried, were for Menger no more than the starting-point for the application of the same basic ideas to much more complex relations.

What makes Menger's analysis so much more impressive than

that of any of his predecessors is that he applied the basic idea systematically to situations in which the satisfaction of a want is only indirectly (or partially) dependent on a particular good. His painstaking description of the causal connections between the goods and the satisfaction of the wants that they serve enables him to bring out such basic relations as those of complementarity, of consumers' goods as well as of factors of production, of the distinction between goods of a lower or higher order, of the variability of the proportions in which the factors of production can be used, and, finally and most importantly, of costs as determined by the utility that the goods used for a particular purpose might have had in alternative uses. It was this extension of the derivation of the value of a good from its utility, from the case of given quantities of consumers' goods to the general case of all goods, including the factors, of production, that was Menger's main achievement.

In thus providing, as a basis for his explanation of the value of goods, a sort of typology of the possible structures of the means-ends relationship Menger laid the foundation of what later has been called the pure logic of choice or the economic calculus. It contains at least the elements of the analysis of consumer-behaviour and of producer-behaviour; the two essential parts of modern micro-economic price theory. It is true that his immediate followers developed mainly the former, and in particular did not take up the bare hint we find in Menger of a marginal-productivity analysis which is essential for an adequate understanding of producer-behaviour. The development of this essential complement, the theory of the firm, was largely left to Alfred Marshall and his school. Yet enough of it is suggested by Menger for it to be possible for him to claim that he has provided all the essential elements for the achievement of his ultimate aim, an explanation of prices which should be derived from an analysis of the conduct of the individual participants in the market process.

The consistent use of the intelligible conduct of individuals as the building stones from which to construct models of complex market structures is of course the essence of the method that Menger himself described as 'atomistic' (or occasionally, in manuscript notes, as 'compositive') and that later came to be known as methodological individualism. Its character is best expressed by his emphatic statement in the Preface to the *Grundsätze* in which he says that his aim is 'to trace the complex phenomena of the social

economy to their simplest elements which are still accessible to certain observation'. But while he stresses that in doing this he is employing the empirical procedure common to all sciences, he implies at the same time that, unlike the physical sciences which analyse the directly observed phenomena into hypothetical elements, in the social sciences we start from our acquaintance with the elements and use them to build models of possible configurations of the complex structures into which they can combine and which are not in the same manner accessible to direct observation as are the elements.

This raises a number of important issues, on the most difficult of which I can touch only briefly. Menger believes that in observing the actions of other persons we are assisted by a capacity of *understanding* the meaning of such actions in a manner in which we cannot understand physical events. This is closely connected with one of the senses in which at least Menger's followers spoke of the 'subjective' character of their theories, by which they meant, among other things, that they were based on our capacity to comprehend the intended meaning of the observed actions. 'Observation', as Menger uses the term, has thus a meaning that modern behaviourists would not accept; and it implies a *Verstehen* ('understanding') in the sense in which Max Weber later developed the concept. It seems to me that there is still much that could be said in defence of the original position of Menger (and of the Austrians generally) on this issue. But since the later development of the indifference-curve technique and particularly of the 'revealed preference' approach, which were designed to avoid the reliance on such introspective knowledge, have shown that at least in principle the hypothesis about individual behaviour that micro-economic theory requires can be stated independently of these 'psychological' assumptions, I will pass over this important point and will turn to another difficulty raised by the adherence to methodological individualism in all its forms.

The fact is, of course, that if we were to derive from our knowledge of individual behaviour specific predictions about changes of the complex structures into which the individual actions combine, we should need full information about the conduct of every single individual who takes part. Menger and his followers were certainly aware that we could never obtain all this information. But they evidently believed that common observation did supply us with a sufficiently complete catalogue of the various *types* of individual

conduct that were likely to occur, and even with adequate knowledge of the probability that certain typical situations would occur. What they tried to show was that, starting from these known elements, it could be shown that they could be combined only into certain types of stable structures but not into others. In this sense such a theory would indeed lead to predictions of the kind of structures that would occur, that are capable of falsification. It is true, however, that these predictions would refer only to certain properties that those structures would possess, or indicate certain ranges within which these structures can vary, and rarely, if ever, to predictions of particular events or changes within these structures. To derive such predictions of specific events from this sort of micro-theory we should have to know, not only the types of individual elements of which the complex structures were made up, but the specific properties of every single element of which the particular structure was made up. Micro-economic theory, at least apart from such instances which it could operate with a fairly plausible *ceteris paribus* assumption, remains thus confined to what I have called elsewhere 'pattern predictions' – predictions of the kinds of structures that could be formed from the available kinds of elements. This limitation of the powers of specific prediction, which I believe is true of all theories of phenomena characterized by what Warren Weaver has called 'organized complexity' (to distinguish them from the phenomena of unorganized complexity where we can replace the information about the individual elements, by statistically ascertained probabilities about the occurrence of certain elements),⁷ is certainly valid for large parts of micro-economic theory. The position that prevails here is well illustrated by an often quoted statement by Vilfredo Pareto concerning the limited applicability of the systems of equations by which the Walrasian School describes the equilibrium position of a whole economic system. He explicitly stated that these systems of equations 'had by no means the purpose to arrive at a numerical calculation of prices' and that it would be 'absurd' to assume that we could know all the particular facts on which these concrete magnitudes depended.⁸

It seems to me that Carl Menger was quite aware of this limitation of the predictive power of the theory he developed and was content

⁷ Warren Weaver, 'Science and complexity', *The Rockefeller Foundation Annual Report*, 1958.

⁸ V. Pareto, *Manuel d'économie politique*, 2nd ed., Paris, 1926, p. 223.

with it because he felt that more could not be achieved in this field. There is to me even a certain refreshing realism about this modest aim which is content, for instance, to indicate only certain limits within which a price will settle down rather than a definite point. Even Menger's aversion against the use of mathematics seems to me directed against a pretence of greater precision than he thought could be achieved. Connected with this is also the absence in Menger's work of the conception of a general equilibrium. If he had continued his work it would probably have become even more apparent than it is in the introductory part (which is the *Grundsätze*) that what he was aiming at was rather to provide tools for what we now call process analysis than for a theory of static equilibrium. In this respect his work and that of the Austrians generally is, of course, very different from the grand view of a whole economic system that Walras gave us.

The limitation on the power of specific prediction to which I have referred seems to me to apply to the whole body of micro-theory which was gradually built up on the foundations of marginal-utility analysis. It was ultimately the desire of achieving more than this modest aim that led to an increasing dissatisfaction with this sort of micro-theory and to attempts to replace it with a theory of a different type.

Before I turn to this reaction against the type of theory of which Menger's work is the prototype, I should say a few words about the curious manner in which his influence operated during the time when it was greatest. There have probably been few books that had an effect as great as the *Grundsätze* in spite of the fact that this work was read by no more than a comparatively small number of people. The effect of the book was chiefly indirect; it became significant only after a considerable interval. Though we commonly date the marginal revolution from the year in which the works of Menger and Jevons were published, the fact is that for the next 10 years or so we shall seek in vain for signs in the literature that they had any effect. Of Menger's book we know that during that early period it had a few careful readers which included not only Eugen von Böhm-Bawerk and Friedrich von Wieser but also Alfred Marshall;⁹

⁹ Alfred Marshall's copy of the *Grundsätze*, preserved in the Marshall library at Cambridge, contains detailed marginal annotations summarizing the main steps in the argument but without comment. They seem to me to be written in Marshall's handwriting of an early date.

but it was only when the two former in the middle of the 1880s published works based on Menger's ideas that these began to be more widely discussed. It is only from this later date, so far as the general development of economic theory is concerned, that we can speak of an effective marginal revolution. And the works that were widely read at that time were those of Böhm-Bawerk and Wieser rather than that of Menger. While the former were soon translated into English, Menger's book had to wait 80 years till it was made available in an English version.

This delay in the effect of Menger's work was probably also the reason why Menger himself, rather than continuing his theoretical work, turned to a defence of the theoretical method of the social science in general. By the time he started on his second book, the *Studies in Method* (*Untersuchungen über die Methoden der Socialwissenschaften*), which appeared in 1883, he must indeed have been under the impression that his first book had had no effect whatever; not because it was thought wrong, but because the economists of the time, at least in the German-speaking world, regarded economic theory in general as irrelevant and uninteresting. It was natural, though perhaps regrettable, that in these circumstances it seemed more important to Menger to vindicate the importance of theoretical analysis than to complete the systematic exposition of his theory. But if in consequence the spreading and development of his theories were left almost wholly to the younger members of the Austrian School, there can be little doubt that during the 50 years from the mid 1880s to the mid 1930s they had, at least outside Britain where Alfred Marshall's ideas dominated, the greatest influence on the development of what, somewhat inappropriately, is now usually called neo-classical economics. For this we have the testimony of Knut Wicksell, who was probably the best-qualified judge because he was equally familiar with all the different strands of marginal theory, and who, in 1921 in an obituary of Carl Menger, could write that 'no book since Ricardo's *Principles* has had such a great influence on the development of economics as Menger's *Grundsätze*'.¹⁰

If 50 years later this statement could hardly be repeated, this is, of course, the consequence of the great shift of interest from micro- to macro-economics, due chiefly, though not entirely, to the work of Lord Keynes. Some tendency in this direction was already discernible

¹⁰ Knut Wicksell, *Ekonomisk Tidskrift*, 1921, p. 124, reprinted in his *Selected Papers*, London, 1952, p. 191.

before the appearance of the *General Theory* and was due to an increasing dissatisfaction with those limitations of the predictive powers of micro-theory to which I have already referred. It was largely a growing demand for greater deliberate control of the economic process (which required more knowledge of the specific effects to be expected from particular measures) that led to the endeavour to use the obtainable statistical information as the foundation for such predictions. This desire was strongly supported by certain methodological beliefs, such as that in order to be truly scientific a theory must lead to specific predictions, that it must refer to measurable magnitudes, and that it must be possible to ascertain constant relationships between the quantitative changes in the relations between those aggregates that are statistically measurable. I have already suggested that it seems to me that a theory with much more modest aims may still be testable in the sense of being refutable by observation; and I will now add that it seems by no means certain that the more ambitious aims can be realized. It cannot, however, be denied that if it were possible to establish that some such relationships are in fact constant over reasonably long periods of time, this would greatly increase the predictive power and therefore the usefulness of economic theory. I am not sure that, in spite of all the efforts devoted to this task during the last 25 years, this aim has yet been achieved. My impression is that it will be found that in general such constancies are confined to states which must be defined in micro-economic terms, and that in consequence we shall have to rely on a diagnosis of the situation in micro-economic terms in order to decide whether such quantitative relationships between aggregates as were observed in the past can still be expected to prevail. I rather expect, therefore, that it will be the needs of macro-economics that will in the future give a new stimulus to the further development of micro-economic theory.

Perhaps I should add that the marked lack of interest that so many of the younger economists have shown for micro-theory in the immediate past is a result of the particular form that macro-economic theory took during that period. It had been developed by Keynes chiefly as a theory of employment which, at least as a first approach, proceeded on the assumption that there existed unused reserves of all the different factors of production. The deliberate disregard of the fact of scarcity that this involved led to the treatment of relative prices as historically determined and not requiring theoretical

explanation. This sort of theory may, perhaps, have been relevant for the kind of general unemployment that prevailed during the Great Depression. But it is not of much help for the kind of unemployment with which we are faced now or that we are likely to experience in the future. The appearance and growth of unemployment in an inflationary period shows only too clearly that employment is not simply a function of total demand but is determined by that structure of prices and production that only micro-theory can help us to understand.

It seems to me that signs can already be discerned of a revival or interest in the kind of theory that reached its first high point a generation ago – at the end of the period during which Menger's influence had been mainly felt. His ideas had by then, of course, ceased to be the property of a distinct Austrian School but had become merged in a common body of theory which was taught in most parts of the world. But though there is no longer a distinct Austrian School, I believe there is still a distinct Austrian tradition from which we may hope for many further contributions to the future development of economic theory. The fertility of its approach is by no means exhausted and there are still a number of tasks to which it can be profitably applied. But these tasks for the future will be the subject of later papers. What I have tried to do is merely to sketch the general role that Menger's ideas have played during the hundred years that have passed since the appearance of his first and most important work. How much his influence is still a live influence I expect the following papers will show.

CHAPTER EIGHTEEN

*Personal Recollections of Keynes and the 'Keynesian Revolution'**

Even to those who knew Keynes but could never bring themselves to accept his monetary theories, and at times thought his pronouncements somewhat irresponsible, the personal impression of the man remains unforgettable. And especially to my generation (he was my senior by 16 years) he was a hero long before he achieved real fame as an economic theorist. Was he not the man who had had the courage to protest against the economic clauses of the peace treaties of 1919? We admired the brilliantly written books for their outspokenness and independence of thought, even though some older and more acute thinkers at once pointed out certain theoretical flaws in his argument. And those of us who had the good fortune to meet him personally soon experienced the magnetism of the brilliant conversationalist with his wide range of interests and his bewitching voice.

I met him first in 1928 in London at some meeting of institutes of business cycle research, and though we had at once our first strong disagreement on some point of interest theory, we remained thereafter friends who had many interests in common, although we rarely could agree on economics. He had a somewhat intimidating manner in which he would try to ride roughshod over the objections of a younger man, but if someone stood up to him he would respect him forever afterwards even if he disagreed. After I moved from Vienna to London in 1931 we had much occasion for discussion both orally and by correspondence.

I had undertaken to review for *Economica* his *Treatise on Money* which had then just appeared, and I put a great deal of work into two long articles on it. To the first of these he replied by a counter-attack on my *Prices and Production*. I felt that I had largely demolished

* Reprinted from the *Oriental Economist*, Tokyo, January 1966.

his theoretical scheme (essentially volume I), though I had great admiration for the many profound but unsystematical insights contained in volume II of the work. Great was my disappointment when all this effort seemed wasted because after the appearance of the second part of my article he told me that he had in the meantime changed his mind and no longer believed what he had said in that work.

This was one of the reasons why I did not return to the attack when he published his now famous *General Theory* – a fact for which I later much blamed myself. But I feared that before I had completed my analysis he would again have changed his mind. Though he had called it a 'general' theory, it was to me too obviously another tract for the times, conditioned by what he thought were the momentary needs of policy. But there was also another reason which I then only dimly felt but which in retrospect appears to me the decisive one: my disagreement with that book did not refer so much to any detail of the analysis as to the general approach followed in the whole work. The real issue was the validity of what we now call macro-analysis, and I feel now that in a long-run perspective the chief significance of the *General Theory* will appear that more than any other single work it decisively furthered the ascendancy of macro-economics and the temporary decline of micro-economic theory.

I shall later explain why I think that this development is fundamentally mistaken. But first I want to say that it is rather an irony of fate that Keynes should have become responsible for this swing to macro-theory, because he thought in fact rather little of the kind of econometrics which was just then becoming popular, and I do not think that he owes any stimulus to it. His ideas were rooted entirely in Marshallian economics, which was in fact the only economics he knew. Widely read as Keynes was in many fields, his education in economics was somewhat narrow. He did not read any foreign language except French – or, as he once said of himself, in German he could understand only what he knew already. It is a curious fact that before the First World War he had reviewed L. von Mises' *Theory of Money* for the *Economic Journal* (just as A. C. Pigou had a little earlier reviewed Wicksell) without in any way profiting from it. I fear it must be admitted that before he started to develop his own theories, Keynes was not a highly trained or a very sophisticated economic theorist. He started from a rather elementary Marshallian economics and what had been achieved by Walras and Pareto, the

Austrians and the Swedes, was very much a closed book to him. I have reason to doubt whether he ever fully mastered the theory of international trade; I don't think he had ever thought systematically on the theory of capital, and even in the theory of the value of money his starting point – and later the object of his criticism – appears to have been a very simple, equation-of-exchange-type of the quantity theory rather than the much more sophisticated cash-balances approach of Alfred Marshall.

He certainly from the beginning was much given to thinking in aggregates and always had a *faible* for (sometimes very tenuous) global estimates. Already in discussion of the 1920s arising out of Great Britain's return to the gold standard his argument had been couched entirely in terms of price- and wage-levels, in practically complete disregard of the structure of relative prices and wages, and later the belief that, because they were statistically measurable, such averages and the various aggregates were also causally of central importance, appears to have gained increasing hold upon him. His final conceptions rest entirely on the belief that there exist relatively simple and constant functional relationships between such 'measurable' aggregates as total demand, investment, or output, and that empirically established values of these presumed 'constants' would enable us to make valid predictions.

There seems to me, however, not only to exist no reason whatever to assume that these 'functions' will remain constant, but I believe that micro-theory had demonstrated long before Keynes that they cannot be constant but will change over time not only in quantity but even in direction. What these relationships will be, which all macro-economics must treat as quasi-constant, depends indeed on the micro-economic structure, especially on the relations between different prices which macro-economics systematically disregards. They may change very rapidly as a result of changes in the micro-economic structure, and conclusions based on the assumption that they are constant are bound to be very misleading.

Let me use as an illustration the relation between the demand for consumers' goods and the volume of investment. There are undoubtedly certain conditions in which an increase of the demand for consumers' goods *will* lead to an increase in investment. But Keynes assumes that this will always be the case. It can easily be demonstrated, however, that this cannot be so and that in some circumstances an increase of the demand for final products must lead to a *decrease*

of investment. The first will generally be true only if, as Keynes generally assumes, there exist unemployed reserves of all factors of production and of the various kinds of commodities. In such circumstances it is possible at the same time to increase the production of consumers' goods and the production of capital goods.

The position is altogether different, however, if the economic system is in a state of full or nearly full employment. Then it is possible to increase the output of investment goods only by at least temporarily reducing the output of consumers' goods, because, to increase the production of the former, factors will have to be shifted to it from the production of consumers' goods. And it will be some time before the additional investment helps to increase the flow of consumers' goods.

Keynes appears to have been misled here by a mistake opposite to that of which he accused the classical economists. He alleged, with only partial justification, that the classics had based their argument on the assumption of full employment, and he based his own argument on what may be called the assumption of full unemployment, i.e. the assumption that there normally exist unused reserves of *all* factors and commodities. But the latter assumption is not only at least as unlikely to be true in fact as the former; it is also much more misleading. An analysis on the assumption of full employment, even if the assumption is only partially valid, at least helps us to understand the functioning of the price mechanism, the significance of the relations between different prices and of the factors which lead to a change in these relations. But the assumption that all goods and factors are available in excess makes the whole price system redundant, undetermined and unintelligible. Indeed, some of the most orthodox disciples of Keynes appear consistently to have thrown overboard all the traditional theory of price determination and of distribution, all that used to be the backbone of economic theory, and in consequence, in my opinion, to have ceased to understand any economics.

It is easy to see how such belief, according to which the creation of additional money will lead to the creation of a corresponding amount of goods, was bound to lead to a revival of the more naïve inflationist fallacies which we thought economics had once and for all exterminated. And I have little doubt that we owe much of the post-war inflation to the great influence of such over-simplified Keynesianism. Not that Keynes himself would have approved of this. Indeed, I am

fairly certain that if he had lived he would in that period have been one of the most determined fighters against inflation. About the last time I saw him, a few weeks before his death, he more or less plainly told me so. As his remark on that occasion is illuminating in other respects, it is worth repeating. I had asked him whether he was not getting alarmed by the use of which some of his disciples were putting his theories. His reply was that these theories had been greatly needed in the 1930s; but if these theories should ever become harmful, I could be assured that he would quickly bring about a change in public opinion. What I blame him for is that he had called such a tract for the times the *General Theory*.

The fact is that, although he liked to pose as the Cassandra whose dire predictions were not listened to, he was really supremely confident of his powers of persuasion and believed that he could play on public opinion as a virtuoso plays on his instrument. He was, by gift and temperament, more an artist and politician than a scholar or student. Though endowed with supreme mental powers, his thinking was as much influenced by aesthetic and intuitive as by purely rational factors. Knowledge came easily to him and he possessed a remarkable memory. But the intuition which made him sure of the results before he had demonstrated them, and led him to justify the same policies in turn by very different theoretical arguments, made him rather impatient of the slow, painstaking intellectual work by which knowledge is normally advanced.

He was so many-sided that when one came to estimate him as a man it seemed almost irrelevant that one thought his economics to be both false and dangerous. If one considers how small a share of his time and energy he gave to economics, his influence on economics and the fact that he will be remembered chiefly as an economist is both miraculous and tragic. He would have been remembered as a great man by all who knew him even if he had never written on economics.

I cannot from personal knowledge speak of his services to his country during the last five or six years of his life when, already a sick man, he gave all his strength to public service. Yet it was during those years that I saw most of him and came to know him fairly well. The London School of Economics had at the outbreak of war been moved to Cambridge, and when it became necessary in 1940 for me to live wholly at Cambridge, he found quarters for me at his college. On the weekends for which, so far as possible, he sought the quiet of

Cambridge, I then saw a fair amount of him and came to know him otherwise than merely professionally. Perhaps it was because he was seeking relief from his arduous duties, or because all that concerned his official work was secret, that all his other interests then came out most clearly. Though he had before the war reduced his business connections and given up the bursarship of his college, the interests and activities he still actively pursued besides his official duties would have taxed the whole strength of most other men. He kept as informed on artistic, literary and scientific matters as in normal times, and always his strong personal likes and dislikes came through.

I remember particularly one occasion which now seems to me characteristic of many. The war was over and Keynes had just returned from an official mission to Washington on a matter of the greatest consequence which one would have assumed had absorbed all his energy. Yet he entertained a group of us for part of the evening with details about the state of the collection of Elizabethan books in the United States as if the study of this had been the sole purpose of his visit. He was himself a distinguished collector in this field, as of manuscripts of about the same period, and of modern paintings.

As I mentioned before, his intellectual interests were also largely determined by aesthetic predilections. This applied as much to literature and history as to other fields. Both the sixteenth and seventeenth centuries greatly appealed to him, and his knowledge, at least in selected parts, was that of an expert. But he much disliked the nineteenth century and would occasionally show a lack of knowledge of its economic history and even the history of its economics which was somewhat surprising in an economist.

I cannot in this short essay attempt even to sketch the general philosophy and outline on life which guided Keynes' thinking. It is a task which has yet to be attempted, because on this the otherwise brilliant and remarkably frank biography by Sir Roy Harrod is hardly sufficient – perhaps because he so completely shared and therefore took for granted the peculiar brand of rationalism which dominated Keynes' generation. Those who want to learn more about this I would strongly advise to read Keynes' own essay 'My early beliefs' which was published in a little volume entitled *Two Memorials*.

In conclusion I want to say a few words about the future of Keynesian theory. Perhaps it will be evident from what I have already said that I believe that this will be decided not by any future

discussion of his special theorems but rather by the future development of views on the appropriate method of the social sciences. Keynes' theories will appear merely as the most prominent and influential instance of a general approach the philosophical justification of which seems to be highly questionable. Though with its reliance on apparently measurable magnitude it *appears* at first more scientific than the older micro-theory, it seems to me that it has achieved this pseudo-exactness at the price of disregarding the relationships which really govern the economic system. Even though the schemata of micro-economics do not claim to achieve those quantitative predictions at which the ambitions of macro-economics aim, I believe by learning to content ourselves with the more modest aims of the former, we shall gain more insight into at least the principle on which the complex order of economic life operates, than by the artificial simplification necessary for macro-theory which tends to conceal nearly all that really matters. I venture to predict that once this problem of method is settled, the 'Keynesian Revolution' will appear as an episode during which erroneous conceptions of the appropriate scientific method led to the temporary obliteration of many important insights which we had already achieved and which we shall then have painfully to regain.

CHAPTER NINETEEN

*Nature v. Nurture Once Again**

After his authoritative *Genetics and Man* (1964) Dr C. D. Darlington has now given us a magnificent account of *The Evolution of Man and Society*. This monumental work is bound to have great influence on many who will never trouble to study the former. What is here brought together on the origin of cultivation of plants and animals, the effects of disease, the significance of blood groups, and the recurrent destruction by man of the environment from which he draws his sustenance is a veritable treasure house of fascinating information. If Professor Max Beloff had not already given here (*Encounter*, October) a full account of the scope of the work, I should not wish to turn to criticism before dwelling at length on the merits of this contribution of a biologist to the understanding of history. But it seems to me necessary more explicitly to examine a crucial issue on which the book is likely to give a misleading impression and with which Professor Beloff deals only by implication.

The point I want to consider here is whether in looking at history from the special point of view of the geneticist, Dr Darlington has not much exaggerated the importance of the factor in which he is chiefly interested. All history is to him grist to his genetic mill which in all instances except those of one-egged twins turns out individuals born with distinct innate capacities which decisively determine their actions.

As a reaction against the behaviourist views expounded 40 years ago, e.g. in the *Encyclopaedia of the Social Sciences*, according to which 'at birth human infants, regardless of heredity, are as equal as Fords', this is most refreshing. But true appreciation of the genetic factor is hardly assisted by ascribing to it more than it is really capable of explaining adequately. Dr Darlington greatly extends

* A comment on C. D. Darlington, *The Evolution of Man and Society*, London, 1969, reprinted from *Encounter*, February 1971.

what he feels must be ascribed to genetic transmission by the simple device that all actions that are not guided by conscious reason must be genetically determined. He operates with the simple dichotomy between, on the one hand, the genetically determined, innate, instinctive, or unconscious capacities (terms which are treated as equivalent), and, on the other hand, rational or learned activities.

I take it that by 'rational' Dr Darlington means purposive action based on conscious insight into the relations between cause and effect, or what Professor Gilbert Ryle called 'knowledge that'. If so, there is certainly no justification for assuming that what is not rational must be innate and genetically determined. There is no ground for supposing that those attributes which are normally transmitted only from parents are all transmitted genetically. 'Breeding' in the sense of upbringing includes much more than begetting. As Dr Darlington duly stresses, man's most distinguishing characteristic is his prolonged infancy, which presumably includes a correspondingly increased capacity for learning by imitation. Most of an individual's aptitudes, propensities, and skills are probably acquired in early infancy, and firmly entrenched by the time he becomes capable of rational thought. These learned action patterns are not tools which he consciously selects, but rather properties in accordance with which he will be selected by a process which nobody controls.

We still know very little about the process of learning by perceiving and imitating, especially by the small child. I know of no systematic study of the extent to which children resemble foster parents in their conscious behaviour patterns. But the importance of this sort of pre-rational learning can hardly be doubted. While apparently the higher apes 'ape' very little, man must have early developed a great capacity for imitating, that is, of translating perceived into performed movements. This may indeed have been one of the most important steps in the development of his brain. I should not be surprised if we were to discover that something analogous to 'imprinting' played a great role in this connection. Once such an innate capacity for learning by imitation is acquired, the transmission of abilities takes a new form – vastly superior to genetic transmission precisely because it includes the transmission of acquired characters which genetic transmission does not.

Man is clearly genetically adapted to this learning process which he must undergo before he is capable of maintaining himself. But we must not confuse the inherited capacity to learn a great variety of modes of conduct with an heredity of particular modes of conduct. Nor must we confine 'learning' to what the child is explicitly taught. Much that is learned certainly is not rational or conscious, but, in the loose and incorrect use of these terms, 'intuitive' or even 'instinctive'. Neither the individual who provides the example nor the imitator will be able to state what is merely 'knowledge how', or know what depends on his acting in this particular manner. Much of what we can do rests on skills or aptitudes or propensities acquired by following examples, and selected because they proved successful, but not deliberately chosen for a purpose.

This process of cultural evolution follows in many respects the same pattern as biological evolution. As the late Sir Alexander Carr-Saunders explained nearly 50 years ago: 'Men and groups of men are naturally selected on account of customs they practise just as they are selected on account of their mental and physical characteristics.' And, as Sir Alister Hardy has shown recently, culturally transmitted patterns may in turn contribute to determine the selection of genetic properties. The processes of cultural and of genetic evolution will thus constantly interact, and their respective influence will be very difficult to distinguish.

Cultural evolution, because it also rests on a sort of natural selection, looks very much like biological evolution. Both are likely to produce the results which Dr Darlington stresses, or to operate by 'hybridisation', 'recombination', 'assortative mating', or 'stratification'. The 'breeding systems' whose significance Dr Darlington emphasises exclusively with reference to the genetic effects are equally important for both forms of evolution. For instance, inbreeding among a group living for generations in the same environment will be apt to lead to the loss of previously possessed skills if failure to transmit them has no deleterious effects on those who have to do without them; but it will disable them from coping with a changed environment, irrespective of whether the transmission of these skills is effected genetically or culturally.

Cultural transmission has however one great advantage over the genetic: it includes the transmission of acquired characters. The child will acquire unconsciously from the example of the parent skills which the latter may have learnt through a long process of trial and

error, but which with the child become the starting point from which he can proceed to greater perfection.

It is curious that Dr Darlington, in his endeavour to play up the genetic aspect, should do less than justice to the comprehensive character of the general principle of evolution, and overlook that it extends far beyond biology – and, incidentally, was used in the theories of language and law long before it was applied to biology. He does not explicitly discuss the distinction which his fellow-biologists, Sir Julian Huxley and Dr Theodosius Dobzhansky, have made between the biological and the ‘psycho-social’ or ‘super-organic’ modes of evolution; perhaps these were not very fortunate terms. And I am not surprised if he should not trust the sociologists properly to develop the theory of cultural evolution since some of them have indeed talked much nonsense about it. But to exclude the *cultural* aspect of evolution and claim almost everything for *genetic* transmission surely is doing violence to the subject. Dr Darlington has certainly not proved the ‘universal dependence of the exchange and transmission of ideas and aptitudes on the exchange and transmission of genes’.

One might have hoped from a work like this that it would provide us with a criterion or test by which we can recognise what is genetically determined or which of the features on which our culture depends are conditioned by innate properties of the individuals. But on this question the author lets us down. So far as I can see he does not demonstrate at any point that the operative sort of inheritance shows any of the specific characteristics of genetic inheritance, such as the exclusion of acquired characters or Mendelian distributions, though he sometimes writes as if he had done so. It may well be that, e.g., the ‘gift for narrative’ of the Irish requires a special genetic factor; but the suggestion that the resemblance of the Etruscan Lion at Vulci to some Hittite work almost 1,000 years older shows that ‘the genetic continuity overrides the cultural discontinuity’ is to me not very convincing. It would be very helpful if we had a test to decide such questions, but I fear that in the present state of knowledge we can hardly hope for one. If we had, it would probably show how precarious the stability of our present civilisation is, precisely because it rests largely on cultural traditions which can be more rapidly destroyed than the genetic endowment of populations.

All these are comparatively minor points which little affect the merits or even the chief conclusions of the book. If the amendments which seem to me necessary were made, these conclusions would not become much more palatable to some of our professional egalitarians, such as the reviewer in the *New Statesman*, to whom Dr Darlington's work appeared as a 'profoundly reactionary book'. The conclusions may seem only just a little less dismal to them if it is admitted that acquired cultural achievements are passed on by processes which are not genetic, and that growing up within a particular family rather than physical descent may be the more important factor. But what Dr Darlington says about such phenomena as stratification, or the secondary importance of that part of the environment which we can manipulate, would still remain true.

On the whole we must probably conclude, as does Sir Gavin de Beer in a book on a similar theme (*Streams of Culture*, New York, 1969) which appeared about the same time as Dr Darlington's, that the old controversy between 'Nature' and 'Nurture' ought to be allowed to die because 'it is necessary to regard both nature and nurture as cooperating, without our being able to say in any one case exactly how much has been contributed by either. . . .'

CHAPTER TWENTY

*Socialism and Science**

1

Socialism is related to Science in various ways. Probably the least interesting relation today is that from which Marxism lays claim to the name of 'scientific socialism', and according to which by an inner necessity, and without men doing anything about it, capitalism develops into socialism. This may still impress some novices, but it is hardly any longer taken seriously by competent thinkers in either camp. Socialists certainly do not act as if they believed that the transition from capitalism to socialism will be brought about by an ineluctable law of social evolution. Few people now believe in the existence of any 'historical laws'.

Experience has certainly refuted the predictions Marx made concerning the particular developments of capitalism.

There is, secondly, the undeniable propensity of minds trained in the physical sciences, as well as of engineers, to prefer a deliberately created orderly arrangement to the results of spontaneous growth – an influential and common attitude, which frequently attracts intellectuals to socialist schemes. This is a widespread and important phenomenon which has had a profound effect on the development of political thought. However, I have already on several occasions discussed the significance of these attitudes, calling them 'scientism' and 'constructivism' respectively, so that it is unnecessary to revert to these questions.

2

What I want to examine today is rather the peculiar manner in which most socialists attempt to shield their doctrines against scientific

* A lecture delivered on 19 October 1976 to the Canberra Branch of the Economic Society of Australia and New Zealand.

criticism, by claiming that differences from opponents are of a nature which precludes scientific refutation. Indeed, they frequently succeed in conveying the impression that any use of science to criticise socialist proposals is *ipso facto* proof of political prejudice, because the differences are wholly based on different value judgments, which the rules of scientific procedure prohibit, so that it is even indecent to introduce them into scientific discussions.

Two experiences have long made me impatient with these contentions. One is that not only I, but I believe also the majority of my contemporary libertarian fellow-economists, were originally led to economics by the more or less strong socialist beliefs – or at least dissatisfaction with existing society – which we felt in our youth, and the study of economics turned us into radical anti-socialists. The other experience is that my concrete differences with socialist fellow-economists on particular issues of social policy turn inevitably, not on differences of value, but on differences as to the effects particular measures will have.

It is true that in such discussions we frequently end up with differences about the probable magnitude of certain effects of the alternative policies. With regard to this both parties must often honestly admit that they have no conclusive proof. Probably I also ought to admit that my conviction that ordinary common sense clearly supports my position is often matched by an equally strong conviction of my opponents that ordinary common sense supports theirs.

3

Yet, when we survey the history of the results of the application of scientific analysis to socialist proposals, it seems abundantly clear that not only has it been shown that the methods advocated by socialists can never achieve what they promise, but also that the different values they hope or claim to serve cannot by *any* possible procedure be all realised at the same time, because they are mutually contradictory.

I will begin by considering the second of these questions which, in the present state of the discussion, appears to be the more interesting one – chiefly because it makes it necessary to clear up certain prevailing confusions concerning the inadmissibility of value judgments in scientific discussions. These are often used to represent scientific arguments against socialism as illegitimate or scientifically suspect.

Such an examination raises important and interesting questions as to the possibility of the scientific treatment of moral beliefs, which have been unduly neglected. Economists, whose daily bread is the analysis of those conflicts of value which all economic activity has constantly to solve, have fought shy of frankly and systematically facing the task. It is as if they feared to soil their scientific purity by going beyond questions of cause and effect and *critically* evaluating the desirability of certain popular measures. They usually maintain that they can merely 'postulate' values without examining their validity. (So long as measures for the benefit of some supposedly 'underprivileged' groups are tacitly assumed to be good, such limitations are, however, usually forgotten.)

It is indeed necessary in this connection to be very careful, and even pedantic, with regard to the expressions one chooses, because there exists a real danger of inadvertently slipping value judgments in an illegitimate manner into a scientific discussion, and also because those defending their socialist ideals are now mostly trained to use 'freedom from value judgments' as a sort of paradoxical defence mechanism for their creed, and are constantly on the look-out to catch their critics out in some incautious formulations. What play has not been made with occasional passages in the work of the greatest scientific critic of socialism, Ludwig von Mises, in which he described socialism as 'impossible'; Mises obviously meant that the proposed methods of socialism could not achieve what they were supposed to do! We can, of course, try any course of action, but what is questioned is whether any such course of action will produce the effects claimed to follow from it. This undoubtedly is a scientific question.

4

So let me for a moment be pedantic and try to state precisely the kinds of value judgments which are admissible in a scientific discussion and the kinds that are not. Our starting point must be the logical truism that from premises containing *only* statements about cause and effect, we can derive no conclusions about what *ought* to be. No consequences whatever for action follow from such a statement, so long as we do not know (or agree) which consequences are desirable and which are undesirable. But once we include among our accepted premises *any* statement about the importance or harmfulness of different ends or consequences of action, all manner of

different norms of action can be derived from it. Meaningful discussion about public affairs is clearly possible only with persons with whom we share at least some values. I doubt if we could even fully understand what someone says if we had no values whatever in common with him. This means, however, that in practically any discussion it will be in principle possible to show that some of the policies one person advocates are inconsistent or irreconcilable with some other beliefs he holds.

This brings me to a fundamental difference in the general attitudes to moral problems which seems to be characteristic of the now common political positions. The conservative is generally happy to cling to his belief in absolute values. While I envy him, I cannot share his beliefs. It is the fate of the economist continually to encounter true conflicts of value; indeed, to analyse the manner in which such conflicts can be resolved is his professional task. The conflicts I have in mind here are not so much the obvious conflicts between the values held by different persons, or the gaps between their individual systems of values, but the conflicts and gaps within the system of values of any one person. However much we dislike it, we are again and again forced to recognise that there are no truly absolute values whatever. Not even human life itself. This again and again we are prepared to sacrifice, and must sacrifice, for some other higher values, even if it be only one life to save a large number of other lives.

(I cannot here consider the interesting point that, though we may never feel entitled to sacrifice a particular known human life, we constantly take decisions which we know will cause the death of some unknown person.)

But the libertarians or true liberals – not those pink socialists who, as Josef Schumpeter said, ‘as a supreme but unintended compliment . . . have thought it wise to appropriate this label’ – therefore do not fall into the opposite extreme of believing, like the socialists, that they can hedonistically construct some other new system of morals which they like, because they think that it will most increase human happiness, but who in fact merely hark back to the primitive instincts inherited from the tribal society. Though the liberal must claim the right critically to examine every single value or moral rule of his society, he knows that he can and must do this while accepting as given for that purpose most of the other moral values of this society, and examine that about which he has doubts in terms of its compatibility with the rest of the dominant system of values.

Our moral task must indeed be a constant struggle to resolve moral conflict, or to fill gaps in our moral code – a responsibility we can discharge only if we learn to understand that order of peace and mutually adjusted efforts, which is the ultimate value that our moral conduct enhances. Our moral rules must be constantly tested against, and if necessary adjusted to, each other, in order to eliminate direct conflicts between the different rules, and also so as to make them serve the same functioning order of human actions.

5

Moral tasks are individual tasks, and moral advance by some groups results from their members adopting rules which are more conducive to the preservation and welfare of the group. Moral progress demands the possibility of individual experimentation; in particular, that within a limited framework of compulsory abstract rules the individual is free to use his own knowledge for his own purposes. The growth of what we call civilisation is due to this principle of a person's responsibility for his own actions and their consequences, and the freedom to pursue his own ends without having to obey the leader of the band to which he belongs. It is true that our moral beliefs are still somewhat schizophrenic, as I tried to show on an earlier occasion, divided between instincts inherited from the primitive band, and the rules of just conduct which have made the open society possible. The morality of individual responsibility of the able adult for the welfare of himself and his family is still the basis for most moral judgments of action. Thus it is the indispensable framework for the peaceful working of any complex society.

Call it science or not, no objective analysis of those basic beliefs on which our existing morals rest, and without the acceptance of which any communication on moral issues becomes impossible – namely, recognition of the responsibility of the individual and of the general grounds on which we esteem the actions of others – can leave any doubt that they are irreconcilable with the socialist demand for a forcible redistribution of incomes by authority. Such an assignment of a particular share according to the views of some authority as to the merits or needs of the different persons is immoral; not simply because I say so, but because it is in conflict with certain basic moral values which those who advocate it also share. The mere fact that commonly accepted ethics have no generally recognised

solutions to the conflicts of values which undeniably arise in this sphere is, of course, of the greatest significance for the political problems which arise here, and for the moral evaluation of the use of coercion in enforcing any particular solution.

6

That collectivist economic planning, which used earlier to be thought to require the nationalisation of the means of 'production, distribution and exchange', leads inevitably to totalitarian tyranny has come to be fairly generally recognised in the West since I analysed the process in some detail in *The Road to Serfdom* more than 40 years ago. I do not know if it was partly for this reason, or because socialists increasingly recognised the incurable economic inefficiency of central planning, about which I shall have to say a few words later, or whether they simply discovered that redistribution through taxation and aimed financial benefits was an easier and quicker method of achieving their aims; but, in any event, socialist parties in the West have almost all for the time being abandoned the most obviously dangerous demands for a centrally planned economy. Left wing doctrinaires in some countries, and the communist parties, still press for it, and may of course sooner or later gain power. But the supposedly moderate leaders, who at present guide most of the socialist parties of the free world, claim – or have it claimed by the media on their behalf – that as good democrats they can be trusted to prevent any such developments.

But can they? I do not mean to question their good faith. Nevertheless, I greatly doubt their capacity to combine their aim of a thorough governmental redistribution of wealth with the preservation, in the long run, of a modicum of personal freedom, even if they succeed in preserving the forms of democracy. It is true that the substitution of cold socialism has much slowed down the process which I had predicted hot socialism would bring about. But can it lastingly avoid the same effects? There are strong reasons for doubting that cold socialism can avoid them.

Governments, to be successful, would at the same time have to preserve functioning markets, on which depends the possibility of competition so determining prices of all products and factors of production in such a way as to serve as reliable guides to production, and also somehow so to influence at least the prices of labour

(obviously including those of the farmer and other 'self-employed') as to satisfy demands for just or equitable remuneration. To satisfy both of these requirements in full is impossible. Governments can aim at best at some kind of compromise, and refrain from many interventions in the market which would be necessary if they were even approximately to satisfy the most pressing demands. But governments bowing to the inevitabilities of the market, after commencing to manipulate the results of the market to favour some groups, would clearly be embarking on a political impossibility. Once claims for interference with the market in favour of particular groups have come to be frequently recognised, a democratic government cannot refuse to comply with similar demands of any groups on whose votes it depends. Though the process may be gradual, a government which begins to control prices to secure popular conceptions of justice is bound to be driven step by step towards the control of all prices; and, since this must destroy the functioning of the market, to a central direction of the economy. Even if governments try not to use such central planning as an instrument, if they persist in the endeavour to create a just distribution they will be driven to use central direction as the only instrument by which it is possible to determine the overall distribution of remunerations (without thereby making it just) – and thus be driven to establish an essentially totalitarian system.

7

It took a long time to convince socialists that central planning is inefficient. Practical men were probably convinced not by argument but only by the warning example of the Russian system; contemporary theoreticians, however, retreated only slowly from the position laid down by the founders of Marxism and generally maintained by their leading theoreticians until 50 years ago. Somehow, however, they nevertheless managed, as they gave up successive positions and attempted new solutions of the problem, to convey the impression that they had victoriously beaten off the onslaughts of hostile critics.

The founders of socialism, including Marx and Engels, did not even understand that any central direction of the machinery of production owned by society required, if resources were to be effectively used, calculations in terms of value. As Friedrich Engels put it, the social plan of production 'will be settled very simply

without the intervention of the famous value'. Even when discussion of the problem was seriously started, immediately after the First World War, it was caused by the social science expert among the Vienna school of logical positivists claiming that all calculations of the efficiency of social production could be carried out *in natura* – that is, without relying on any variable rates of conversion between the different physical units used. It was against this position that Ludwig von Mises and some of his contemporaries (including Max Weber) developed the first decisive critique of the socialist position.

The crucial point here – which, it must be admitted, even the leading classical economists down to John Stuart Mill did not understand – is the universal significance of changing rates of substitution between different commodities. This simple insight, which helped us at last to understand the role of differences and variability of the prices of different commodities, began slowly to develop with the recognition – I will not say the discovery, since of course every simple peasant knew the facts if not their theoretical significance – of decreasing returns from successive applications of labour and capital to land. It was next found to govern, under the name of decreasing marginal utility, the rates of marginal substitution between different consumers' goods. And it was finally discovered to be the universal relation prevailing between all useful resources, determining at once if they are economically the same or different, and if they are scarce or not. Only when it was understood that changing supplies of the different factors of production (or means of satisfaction) determines their variable marginal rate of substitution, was the indispensability of known rates of equivalence (or rates of marginal substitution) for any efficient calculation fully understood. Only when it was at last seen that through market prices this rate of equivalence in all their different uses, mostly known only to a few of the many persons who would like to use them, could be made equal to the rates at which any pair of commodities could be substituted in any of its countless uses, was the indispensable function of prices in a complex economy fully understood.

Variable 'marginal rates of substitution' for different commodities, to which I have previously referred, naturally mean their temporary rates of equivalence determined by the situation at the moment, and at which these things must be substitutable at the margin in all their possible uses – if we are to get their full capacity out of them.

It was both the understanding of the function of changing rates of

equivalence between physically defined objects as the basis of calculation, and the communication function of prices which combined into a single signal all the information on these circumstances dispersed among large numbers of people, which at last made it fully clear to every person who could follow the argument that rational calculation in a complex economy is possible only in terms of values or prices, and that these values will be adequate guides only if they are the joint efforts, such as the values formed on the market, of all the knowledge of potential suppliers or consumers about their possible uses and availability.

The first reaction of the socialist theoreticians, once they could no longer refuse to admit this fact, was to suggest that their socialist planning boards should determine prices by the same system of simultaneous equations by which mathematical economists had attempted to explain market prices in equilibrium. They even tried to suggest that Wieser, Pareto and Barone had long ago pointed out the possibility of this. In fact, these three scholars had pointed out what a socialist planning board *would have to try to do* in order to equal the efficiency of the market – not, as the socialist theoreticians incorrectly suggested, how such an impossible result could be achieved. Pareto, in particular, had made clear that the system of simultaneous equations, development of which made him famous, was intended to show only the general pattern (as we would today express this), but could never be used to determine particular prices, because any central authority could never know all the circumstances of time and place which guide the actions of individuals, such actions being the information fed into the communication machine which we call the market.

So the first attempt by the socialists to answer the critique by Mises and others soon collapsed. The next step, by which particularly Oscar Lange, but also others, are supposed to have refuted Mises, consisted of various attempts to reduce more or less the role of central planning and to re-introduce some market features under the name of 'socialist competition'. I will not dwell here on how great an intellectual reversal this meant for all those who for so long had emphasised the great superiority of central direction over the so-called 'chaos of competition'. This self-contradictory approach raised new problems of an altogether new kind. However, it could in no way overcome two crucial difficulties. First, the socialist authority could not, as long as all the industrial equipment and other capital

belonged to 'society' (that is, the government), let competition or the market decide how much capital each enterprise was to have, or what risks the manager would be allowed to run – both decisive points if a market is to operate properly. Second, if the government were otherwise to let the market operate freely, it could do nothing to secure that the remuneration the market gave to each participant would correspond to what the government regarded as socially just. Yet to achieve such a so-called 'just' remuneration was, after all, the whole intended purpose of the socialist revolution!

8

The answers to the three questions we have been discussing do not depend on particular value judgments, except the answer to the first question, in which certain values (such as personal liberty and responsibility) were taken for granted. It can be assumed that such values would be shared by all persons with whom one cared to discuss such problems. The fundamental problem was always whether socialism could achieve what it promised. This is a purely scientific problem, even if the answer may in part depend on points on which we cannot strictly demonstrate the correctness of our answer. Yet, the answers at which we have arrived on all three counts are purely negative. On the moral side, socialism cannot but destroy the basis of all morals, personal freedom and responsibility. On the political side, it leads sooner or later to totalitarian government. On the material side it will greatly impede the production of wealth, if it does not actually cause impoverishment. All these objections to socialism were raised a long time ago on purely intellectual grounds, which in the course of time have been elaborated and refined. There have been no serious attempts to refute these objections to socialism rationally. Indeed, the most surprising thing about the treatment of these problems by the majority of professional economists is how little they have made them the central point of their discussions. One would think that nothing could be of more concern for economists than the relative efficiency and conduciveness to general welfare of alternative orders of economic affairs. Instead they have fought shy of the topic, as if fearing to soil their hands by concerning themselves with 'political' topics. They have left the discussion to specialists in 'economic systems' who in their textbooks provide stale accounts of discussions of long ago, carefully avoiding taking sides. It

is as if the circumstance that that issue had become the subject of political dispute were a cause for the silence of the scientists who knew they could definitely refute at least some of the arguments of one side. This kind of neutrality seems to me not discretion but cowardice. Surely it is high time for us to cry from the house-tops that the intellectual foundations of socialism have all collapsed.

I have to admit that, after vainly waiting for upwards of 40 years to find a respectably intellectual defence against objections raised to socialist proposals, I am becoming a little impatient. Since I have always acknowledged that the socialist camp includes many people of good will, I have tried to deal with their doctrines gently. But the time is overdue to proclaim loudly that intellectually the foundations of socialism are as hollow as can be, and that opposition to socialism is based, not on different values or on prejudice, but on unrefuted logical argument. This must be openly said, especially in view of the tactics so frequently employed by most advocates and defenders of socialism. Instead of reasoning logically to meet the substantial objections they have to answer, socialists impugn the motives and throw suspicion on the good faith of defenders of what they choose to call 'capitalism'. Such crude efforts to turn discussion from whether a belief is true to why it is being held seems to me itself an outgrowth of the weakness of the intellectual position of the socialists. Quite generally, the socialist counter-critique seems often to be more concerned to discredit the author than to refute his arguments. The favourite tactics of the counter-critiques is to warn the young against taking the author or his book seriously. This technique indeed has been developed to a certain mastership. What young man will bother with such a book as my *Constitution of Liberty* which, he is told by a 'progressive' British political science don, is one of those 'dinosaurs that still occasionally stalk on the scene, apparently impervious to natural selection'? The principle seems generally: if you can't refute the argument, defame the author. That the argument against them may be genuine, honest and perhaps true, these left-wing intellectuals do not seem prepared to consider even as a possibility, since it might mean that they themselves are entirely wrong.

Certainly, political differences are frequently based on differences of ultimate values, on which science has little or nothing to say. But the crucial differences which exist today at least between the socialist intellectuals, who, after all, invented socialism, and their opponents are not of this kind. They are intellectual differences which between

people not irredeemably wed to a muddled dream can be sorted out and decided by logical reasoning. I have never belonged to any political party. Long ago I shocked many of my friends by explaining why I cannot be a conservative. Insight into the nature of the economic problems of society turned me into a radical anti-socialist, I can honestly say. Moreover, it convinced me that as an economist I can do more for my fellow-men by explaining the reasons for opposing socialism than in any other manner. Anti-socialism means here opposition to *all* direct government interference with the market, no matter in whose interest such interference may be exercised.

It is not correct to describe this as a *laissez faire* attitude – another of the smear-words so frequently substituted for argument – because a functioning market requires a framework of appropriate rules within which the market will operate smoothly. Strong reasons also exist for wishing government to render *outside the market* various services, which for one reason or another the market cannot supply. But the state certainly ought never to have the *monopoly* of any such service, especially not of postal services, broadcasting, or the issue of money.

Some signs are appearing of a return to sanity. But I do not really feel hopeful about prospects for the future. There is much talk about countries becoming ‘ungovernable’, but little realisation that attempts to govern too much are at the root of the trouble, and even less awareness of how deeply the evil has already become entrenched in prevailing institutions. For progress towards its aims, socialism needs government with unlimited powers, and has already got this. In such a system various groups must be given, not what a majority thinks they deserve, but what those groups themselves think they are entitled to. Granting these groups what they think they deserve therefore becomes the price that must be paid so that some groups may become a majority. Omnipotent democracy indeed leads of necessity to a kind of socialism, but to a socialism which nobody foresaw or probably wanted: a position in which the individual elected representative as well as the governing majority must work to redress every imagined grievance which it has power to redress, however little justified the claim may be. It is not the assessment of the merits of persons or groups by a majority, but the power of those persons or groups to extort special benefits from the government, which now determine the distribution of incomes.

The paradox is that the all-powerful government which socialism

needs, must, if it is to be democratic, aim at remedying all such dissatisfaction, and to remove all dissatisfaction means that it must reward groups at their own estimates of their deserts. But no viable society can reward everyone at his own valuation. A society in which a few can use power to extort what they feel they are entitled to may be highly unpleasant for the others, but would at least be viable. A society in which everyone is organised as a member of some groups to force government to help him get what he wants is self-destructive. There is no way of preventing some from feeling that they have been treated unjustly – that is bound to be widespread in any social order – but arrangements which enable groups of disgruntled people to extort satisfaction of their claims – or the recognition of an ‘entitlement’, to use this new-fangled phrase – make any society unmanageable.

There is no limit to the wishes of the people which an unlimited democratic government is obliged to try to satisfy. We have indeed the considered opinion of a leading British Labour politician that he regards it as his task to remedy all dissatisfaction! It would be unfair, however, to blame the politicians too much for being unable to say ‘no’. Under prevailing arrangements perhaps an established leader could afford occasionally to do so, but the ordinary representative cannot say ‘no’ to any large number of his constituents, however unjust their demands, and still hope to retain his seat.

In a society whose wealth rests on prompt adaptation to constantly changing circumstances, the individual can be left free to choose the directions of his efforts only if rewards fluctuate with the value of the services he can contribute to the society’s common pool of resources. If his income is politically determined, he loses not merely the incentive but also the possibility of deciding what he ought to do in the general interest. And if he cannot know himself what he must do to make his services valuable to his fellows, he must be commanded to do what is required. To suffer disappointment, adversity and hardship is a discipline to which in any society most must submit, and it is a discipline by which it is desirable that all able persons ought to have to submit. What mitigates these hardships in a free society is that no arbitrary human will imposes them, but that their incidence is determined by an impersonal process and unforeseeable chance.

I believe that, after a little socialism, people generally recognise that it is preferable for one’s well-being and relative status to depend on the outcome of the game of the market than on the will of a

superior, to whom one is assigned by authority. Present trends, however, make it seem likely that, before such an insight spreads widely enough, existing political institutions will break down under stresses which they cannot bear. Unless people learn to accept that many of their grievances are unjustified, and give them no claims on others, and that in this world government cannot effectively assume responsibility for how well off particular groups of people are to be, it will be impossible to build a decent society. Indeed, the most idealistic among the socialists will be forced to destroy democracy to serve their idealistic socialist vision of the future. What present trends point to is the emergence of ever larger numbers, for whose welfare and status government has assumed a responsibility it cannot discharge, and whose revolt when they are not paid enough, or asked to do more work than they like, will have to be subdued with the knout and the machine-gun: this, too, by the very people who genuinely intended to grant all their wishes.

Postscript

Since I put together the preceding essays two comments by famous socialist economists on subjects on which I have devoted much of my published efforts over the past forty years have further shaken my hope of ever reaching their minds by rational argument. A few months ago the colleague with whom I shared the Nobel Memorial Prize in Economics asserted in writing that I, 'like most other economists, had certainly never been much troubled by epistemological worries'! (Gunnar Myrdal, 'The Nobel Prize in Economic Science', *Challenge*, New York, March–April 1977, translated from the Swedish in *Dagens Nyheter*, Stockholm, 14 December 1976.) And after publication of the article reprinted above as chapter 14, Professor Wassily Leontief wrote to the publishers (in a letter which he will not allow me to publish), protesting against my criticism of his proposals on the ground that he could discover no published evidence that I was competent to pronounce on such topics!

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